A REPORT ON U.S.

THESE ARE THE GOOD OLD DAYS

LIVING STANDARDS

FEDERAL RESERVE BANK OF DALLAS

1993 ANNUAL REPORT

Contents

LAST YEAR, our annual report essay was entitled "The Churn: The Paradox of Progress." It focused on the creative destruction taking place in the labor market. It showed how small net changes in the employment and unemployment numbers obscure the large-scale destruction of old jobs and the creation of new jobs. This churning renews and revitalizes our economy and keeps it competitive in a rapidly changing world.

This year's essay might have been entitled "Churn II," because it shows the progress that society is able to reap if it allows the churn to happen. Instead, we are calling this essay "These Are the Good Old Days." It focuses on the dramatic changes that have taken place in our living standards that GNP figures fail to capture. While traditional measures may suggest the economy has been sluggish in recent years, in many respects, these are the good old days. Our point is not to deny the slowdown in productivity growth or the potential growth rate of real GNP over the past two decades. Annual growth of 2-and-a-half percent is not good enough. Our point is that wonderful changes are taking place in the way we live that should not be ignored in assessing trends in our standard of living. As you review developments you are already familiar with, I think the cumulative impact of the changes will astonish you.

The Dallas Fed has had some recent churning of its own. Each year some of our directors move on and others take their place in a process of renewal. We just said goodbye to Clive Runnels from our Houston board, Diana Natalicio from the El Paso board and Javier Garza and Sam Sparks from our San Antonio board. They gave us freely the benefit of their knowledge and wisdom, and we will miss them all.

At the Dallas Office we lost two very special friends and board members: Tom Frost and Leo Linbeck. It is often said that Texas lost nine out of its 10 largest banks. Tom runs the tenth. He is widely respected as the dean of Texas banking. He just completed six years as a director of the Dallas Fed, following earlier service as a member of our Federal Advisory Council. Tom is a gentleman and scholar. Better yet, a Texas gentleman and scholar. Our Bank has benefited greatly from Tom's wisdom, dedication and years of service.

Leo Linbeck just completed his seventh year as a Board member, the last two as chairman. We drafted Leo for an extra year on the Board to enable him to complete our building project. Thanks, Leo. Thank you for our building and for your friendship. Thank you for all the work you do behind the scenes, without fanfare or recognition, for our country.

As we work day to day and year to year, it's easy to lose sight of the small steps that lead to giant strides—both for the Dallas Fed and in the broader sense. As we reflect on progress in this annual report, we are challenged by the new year ahead and look forward to providing strong leadership in areas supporting free enterprise—the system that has enabled each generation of Americans to make the claim that "*these* are the good old days."

Robert D. McTeer, Jr.

Robert D. McTeer, Jr.
President and Chief Executive Officer

A REPORT ON U.S.

THESE ARE THE GOOD OLD DAYS

LIVING STANDARDS

Rip Van Winkle wakes to a bright spring day in 1994 and, rubbing his eyes, quickly realizes the world around him has changed. He discovers almost 25 years have flown by since the start of his big sleep. Among his last memories before dozing off in 1970: watching George C. Scott portray *Patton* at a movie theater, seeing *Rowan & Martin's Laugh-In* on television and listening to the Beatles' *Let It Be*. President Richard Nixon had ordered U.S. troops into Cambodia to attack Viet Cong bases. New York's once-hapless Mets had become the "Miracle Mets," starting the 1970 season as World Series champions.

Events since 1970 seem world-shaking. The Soviet Union has fallen apart. The global village has grown together. Yet what amazes Rip the most is the tremendous economic progress the United States has made in just a quarter of a century.

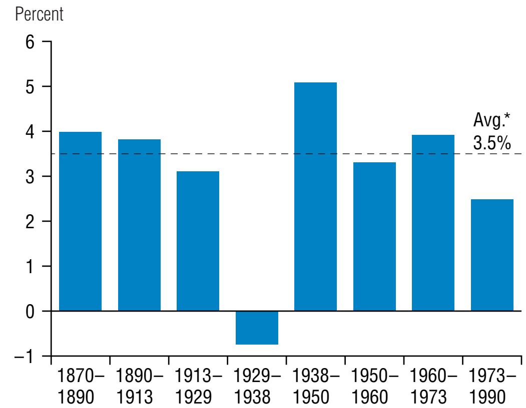
Americans in the 1990s routinely withdraw money from automatic teller machines all over the world. We communicate on cellular phones, cook meals in minutes using microwave ovens, watch movies at home on videocassette players, listen to concert hall-quality music on compact discs and flash instant messages from one computer to another on a global grid called Internet. Americans figure checking-account balances on pocket calculators, use camcorders to film our children playing soccer, fight ulcers and depression with new wonder drugs, flick many things on and off by remote control. We have more cars, more household appliances, more vacation homes, more entertainment options and more

The World Through Rip's Eyes

	1970	1990
Average size of a new home (square feet)	1,500	2,080
New homes with central air conditioning	34%	76%
People using computers	<100,000	75.9 million
Households with color TV	33.9%	96.1%
Households with cable TV	4 million	55 million
Households with VCRs	0	67 million
Households with two or more vehicles	29.3%	54%
Median household net worth (real)	$24,217	$48,887
Housing units lacking complete plumbing	6.9%	1.1%
Homes lacking a telephone	13%	5.2%
Households owning a microwave oven	<1%	78.8%
Heart transplant procedures	<10	2,125*
Average work week	37.1 hours	34.5 hours
Average daily time working in the home	3.9 hours	3.5 hours
Work time to buy gas for 100-mile trip	49 minutes	31 minutes*
Annual paid vacation and holidays	15.5 days	22.5 days
Number of people retired from work	13.3 million	25.3 million
Women in the work force	31.5%	56.6%
Recreational boats owned	8.8 million	16 million
Manufacturers' shipments of RVs	30,300	226,500
Adult softball teams	29,000	188,000
Recreational golfers	11.2 million	27.8 million
Attendance at symphonies and orchestras	12.7 million	43.6 million
Americans finishing high school	51.9%	77.7%
Americans finishing four years of college	13.5%	24.4%
Employee benefits as a share of payroll	29.3%	40.2%**
Life expectancy at birth (years)	70.8	75.4
Death rate by natural causes (per 100,000)	714.3	520.2

**Figures are for 1991. **Figure is for 1992.*

Growth of U.S. Gross National Product, 1870–1990



*Average is for 1870–1973.

free time than Americans two decades ago.

The contrast between American life then and now is astounding. Rip surveys the changes and concludes Americans never had it so good. He is puzzled, though, that so few people share his sense of wonderment. People seem glum about the U.S. economy of the 1990s and look back to the time Rip went to sleep—the late 1960s and early 1970s—as the apex of American prosperity. People reflect on that time as "the good old days" from which the U.S. standard of living has ebbed.

Americans of the 1990s point Rip to many signs of lost vitality in the U.S. economy. Growth is slowing to a crawl. Productivity is stagnating. Paychecks are getting smaller and, for many workers, less certain. Other countries are gaining on us, even as more American families earn two incomes. (See "Catching Up" at the end of this essay.) Worst of all, perhaps, some Americans worry that their country, for the first time in its history, will fail to provide today's children with living standards as high as their parents'. As if economic deterioration weren't enough, discouraging reports on crime, education, homelessness and other social ills plague the country in the 1990s.

The usual barometers of economic activity show cause for alarm. Inflation-adjusted manufacturing wages rose by 2 percent a year from 1950 to 1973, but they *fell* an average of 1.3 percent a year from 1973 to 1990. Inflation-adjusted median family income gained 3 percent a year from 1950 to 1973, but the annual increase ebbed to 0.1 percent in the past two decades. Productivity, a yardstick of the output from each hour of work, grew at an annual rate of 2.2 percent from 1870 to 1973, then slowed to 1 percent. The broadest measure of the economy's well-being—gross national product, or GNP—sends perhaps the most troubling signal of all. Even with the Great Depression of the 1930s, GNP expanded by an average of nearly 3.5 percent a year from 1870 to 1973. To the dismay of many Americans, the growth rate slipped to an annual average of less than 2.5 percent in the past two decades.

The two versions of reality could hardly be more at odds. One says the country continues to reap the ever-larger bounty promised by free enterprise; the other, that the increase in Americans' standard of living has slowed markedly in recent years. A loss of dynamism—if real—would challenge Americans' view of who we are. The notion of a falling living standard affronts the American dream, one of the ideals that hold the nation together. It challenges the ingenuity of those in power, confronting them with the task of getting America moving again. Most broadly, it threatens Americans' faith in the free enterprise system at the very moment of its historic triumph over communism.

GNP Is Not Standard of Living

As Rip learned, there are both bleak and bright views of America's economic progress. To unravel the conflict between them, we must understand how society's standard of living is measured. As a gauge of well-being, economists and policymakers usually rely on GNP, a simple sum of the market value of goods and services our nation churns out in a year. Every measure of how the economy is faring in some way derives from this aggregate. *Growth* is the percentage change in GNP, usually adjusted for inflation by a price index. *Productivity* divides the inflation-adjusted, or real, GNP by the total number of hours worked. *Per capita income* apportions an equal share of real GNP to each person.

At best, GNP offers only a crude measure of Americans' well-being. The meter for GNP is dollars and cents or, through the magic of a price index, real goods and services. The meter for standard of living is happiness, an elusive concept. Even without consulting a philosopher, it's clear they aren't the same. GNP is not standard of living.

By design, GNP counts only a fraction of what human beings might want in a better life. GNP figures ignore the contribution to people's lives of anything, good or bad, that's not explicitly bought and sold on the open market. For the most part, this is a practical matter: statisticians report what's measurable. Markets give objective, easily calculated monetary values to shoes, televisions, haircuts, trips to Hawaii—a whole panoply of goods and services.

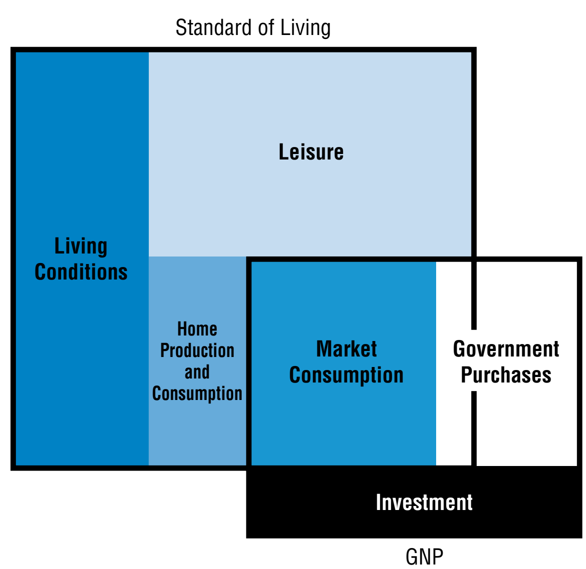
By far, the largest omission in measured GNP is leisure—time for recreation, family, friends, entertainment, hobbies or just taking it easy. By the choices we make about work hours as incomes rise, Americans show we value leisure highly. Yet because time off from work isn't traded in the marketplace, a trend toward greater leisure in recent decades counts for nothing in the GNP measure of standard of living.

The GNP numbers also ignore the value of services produced and consumed in the home—cooking meals, doing laundry, mowing the lawn, washing the car and dozens more chores. Over time, many household tasks have been shifted toward the market, allowing families even more leisure. As families pay for household chores, GNP data reflect these transactions but can distort comparisons of GNP from one generation to the next.

Time also brings new and improved products that enhance our lives in ways unavailable to previous generations at any price. Each innovation—air conditioners that use less energy, cars that handle more safely, cable television companies that deliver new programs into the home, foods with lower cholesterol and fat—raises the value of these goods and services and lifts consumers' standards of living. Yet various studies suggest that the GNP statistics don't adequately account for improvements, over time, in product quality.

What GNP Doesn't Tell Us About Living Standards

GNP is not standard of living. The two concepts are related, but standard of living has a much broader meaning. GNP does not reflect many factors that affect living standards. Among these are leisure, the value of goods families produce for personal use and conditions of life, such as health and safety, crime, pollution and longevity. GNP, in turn, includes some elements that do not affect today's living standards, such as investment spending.



The dollars-and-cents statistics of GNP just can't measure the value of some things—like extra time for basketball.

Nor does GNP track a host of other important, nonmarket components of a higher quality of life—longevity, health and safety, working conditions, the environment. These aspects of daily life vary greatly from place to place, from one person's experience to the next, but there's evidence that they've improved decade by decade for most Americans.

It's no easy task to translate much of what's not measured by GNP into dollars and cents. There are inherent difficulties in valuing leisure, home production, product quality, living conditions and whatever else might go into the true standard of living. Yet moving beyond narrow GNP to a broader notion of Americans' well-being will help provide a more accurate—and, to many, surprising—view of how well the nation is doing. There's no denying the country would be better off with a faster pace of economic expansion (See "Secrets of Growth" at the end of this essay.) The supposedly lackluster 2.5-percent GNP growth of recent decades, though, doesn't capture all the gains in living standards. The omissions and lapses suggest that GNP, as it comes out of the government's statistical mills, may understate the true income of Americans, perhaps by a large margin.

Time For Symphonies and Softball

Time is the ultimate scarce resource. Each day contains 24 hours. Each week consists of seven days. In a fast-paced, modern society, once work and chores are done, there almost always seems to be a shortage of time for what we enjoy. Many workers complain about haggard, sleep-deprived lifestyles. Yet, as hard as it may be for many Americans to believe, surveys show the country has never had as much leisure. What's more, evidence from spending patterns and elsewhere suggests that today's Americans are using their time off to squeeze more recreational activities into their lives.

Over the past four generations, the time an average U.S. employee devotes to on-the-job work decreased by nearly one-half. Looking at just the most recent two decades, when concerns about American living standards became more pronounced, work hours declined an additional 9.3 percent, the equivalent of 23 days a year.

Daily work hours aren't the end of what's happening to leisure. Americans are starting work later in life and, perhaps even more significant, they are enjoying longer periods of retirement. In the two decades after 1970, the age at which an average worker entered the labor force pushed forward by seven months. A typical retirement grew by more than four years. In addition, the average daily time devoted to household chores fell consistently—from 4 hours, 12 minutes in 1950, to 3 hours, 48 minutes in 1973, to an estimated 3 hours, 30 minutes in 1990. Over a year, 18 minutes a day aren't trifling: they add up to more than four extra days off.

Interestingly, the value of work at home might not be declining along with the time spent doing chores. Microwave ovens, no-iron fabrics, self-cleaning ovens, frost-free refrigerators and dozens of other conveniences make household work lighter and faster. In effect, technology is boosting household efficiency by enabling us to accomplish more with the same or less effort.

Work Time

Since 1870, Americans' hours on the job have been cut almost in half. Even since 1970, we've shortened the workweek and gained extra vacation days and holidays.

Year	Work-week (hours)	Work-day (hours)	Work-week (days)	Annual hours paid for	Vaca-tion (days)	Holi-days (days)	Other absence (days)	Annual hours worked
1870	61	10.2	6	3,181	0	3	8	3,069
1890	58.4	9.7	6	3,045	0	3	8	2,938
1913	53.3	8.9	6	2,779	5	3.5	8	2,632
1929	48.1	8	6	2,508	5.5	4	8	2,368
1938	44	8	5.5	2,294	6	4.5	8	2,146
1950	39.8	8	5	2,075	6.5	6	9	1,903
1960	38.6	7.7	5	2,013	7	7	9	1,836
1973	36.9	7.4	5	1,924	8	7.5	9	1,743
1990	34.5	7.3	4.7	1,799	10.5	12	10	1,562

Today, the typical employee spends less than a third of all waking hours working, either at home or on the job. When totaled, the results are mind-boggling: workers, on average, have added nearly *five years* of waking leisure to their lifetimes since 1973. A look back 120 years shows that an extended childhood, with more years of schooling, and a period of leisure after years of work are strictly modern expectations.

When jobs and work at home are combined, virtually all segments of society worked less in 1990 than they did two decades before. The gain in leisure was a minuscule few minutes a week for employed men. Thanks largely to labor-saving appliances and other helping hands, women who didn't work outside the home reaped 10 extra hours of leisure. Employed women saw a six-hour decline in total work. A trend toward more women taking jobs creates one caveat. Women who used to stay at home and now hold jobs may have increased their work—by about 13 hours a week. Inflexibility in the labor market typically requires them to put in a full week, and household chores await at the end of each day. Nevertheless, women with jobs spend less time on housework than their counterparts did 20 years ago, and they are compensated with higher incomes.

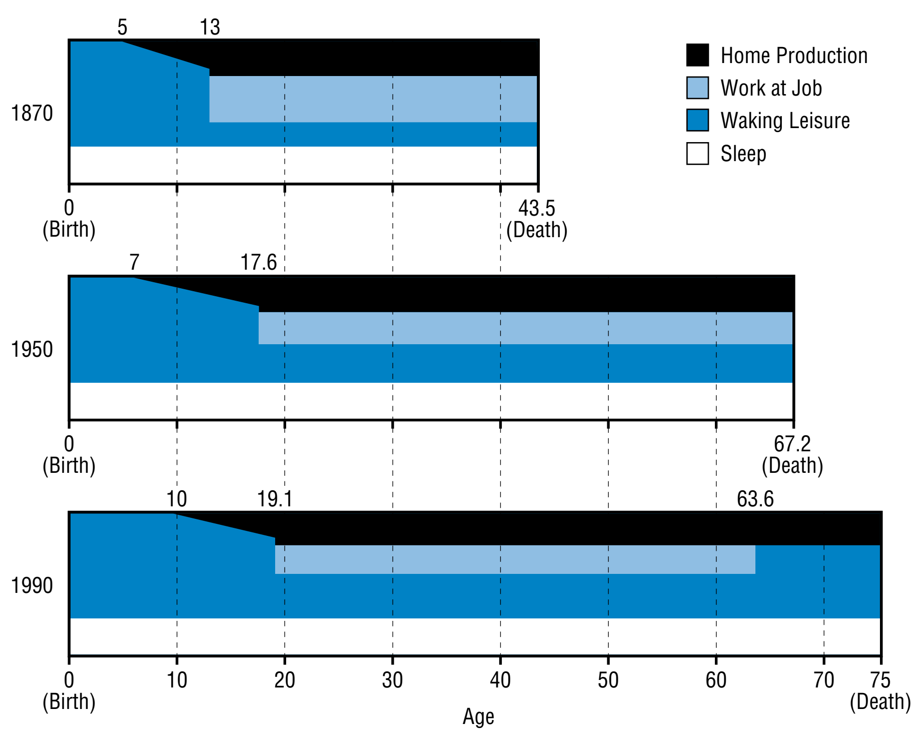
But does having more free time translate into higher living standards? Statistics from the government and trade groups indicate Americans are spending more time and more money on recreation. From 1970 to 1991, the number of Americans who play golf regularly doubled to 11 percent of the population. Even after adjusting for population growth, the

Less Work, More Leisure

Today's workers may feel pressed for time, but, as a nation, we start to work later in life and work fewer hours than earlier generations. In 1870, Americans could expect to spend 39 percent of their waking hours at leisure. Now, the time we spend in childhood, vacations, evenings, holidays and retirement adds up to 70 percent of our waking hours.

ACTIVITY	1870	1950	1973	1990
Age starting work (avg.)	13	17.6	18.5	19.1
Life expectancy (years)	43.5	67.2	70.6	75.0
Retirement age (avg.)	death	68.5	64.0	63.6
Years on job	30.5	49.6	45.5	44.5
Retirement (years)	0	0	6.6	11.4
Annual hours worked	3,069	1,903	1,743	1,562
Annual hours home work	1,825	1,544	1,391	1,278
LIFETIME HOURS				
Working at job	93,604	94,389	79,307	69,509
Working at home	61,594	81,474	67,151	59,800
Waking leisure	99,016	216,854	266,129	308,368

Three Profiles of a Lifetime



Innovative products are freeing Americans to work when, where and how we choose.

New products can make our lives safer, easier—or just more fun.

number of adult softball teams jumped sixfold in two decades. In 1970, a quarter of Americans bowled; now, a third do. Ownership rates rose 50 percent for recreational boats and more than doubled for vacation homes. Pleasure trips per capita rose from 1.5 a year in 1980 to 1.8 in 1991. Average attendance at baseball games rose from 16,100 in 1973 to 31,377 in 1992. Football, hockey, basketball, golf and car racing are drawing bigger crowds—in person and on television. Cultural activities haven't been short-changed. Per capita attendance at symphonies and operas doubled from 1970 to 1991. We're reading more books; annual sales rose from 6.6 per person in 1974 to 8.1 in 1991.

Money going to leisure activities has risen rapidly, too. From 1970 to 1990, spending rose from \$1.2 billion to \$4.1 billion for recreational vehicles, \$2.7 billion to \$7.6 billion for pleasure boats and \$17 billion to \$44 billion for sporting goods. Total recreational spending, adjusted for inflation, jumped from \$91.3 billion in 1970 to \$257.3 billion in 1990, an average annual gain of 9.1 percent that well outstrips population growth of 1 percent a year. In 20 years, the money consumers allocated to recreation increased from 5 percent of total spending to nearly 8 percent.

The fact that Americans cram their off-work hours with all these recreational activities suggests we're wealthier—financially better off to make use of the time off we've gained. Work hours and family budgets reveal what GNP numbers don't: an explosion of leisure is improving the American lifestyle.

The Lost Art of Canning Vegetables

One way critics put down the U.S. economy is to say, "We're becoming a nation of hamburger flippers." Truth is, however, somebody always flipped hamburgers, or at least did the equivalent in preparing daily meals, usually in the home. In fact, running a household requires a daunting list of chores—cooking, cleaning, gardening, child care, shopping, banking, ferrying family members to ballet lessons and soccer practice.

As Americans grow richer, many chores once done by family members are moving out of home production and into the market or, like gardening and canning, becoming hobbies rather than necessities. More so today than in the past, it's more efficient for workers to spend time earning money doing what they do best on the job, then pay others to perform at least some household tasks. In modern economies, market alternatives to home production are readily available. To the extent they can afford it,

Out of the Home and into the Market

As U.S. living standards have risen, and especially as more women have entered the work force, chores once done by family members have become services provided by the marketplace.

HOME ACTIVITY	BUSINESS OR INDUSTRY
Yardwork	
Mow the lawn	Lawn mowing
Prune trees	Tree service
Trim bushes	Yard maintenance
Weed and fertilize	Lawn and garden care
Install sprinklers	Yard service
Clothing	
Wash and dry clothes	Maid, dry cleaning
Iron, starch and fold clothes	Laundry, dry cleaning
Sew, knit and tailor garments	Clothing makers, tailors
Food	
Grow fruit and vegetables	Farming
Raise livestock	Ranching
Preserve fruits and vegetables	Canning, packaging
Slaughter and cure meat	Butchery
Cook and serve meals	Restaurant, catering
Clean the dishes	Restaurant
Household maintenance	
Clean house	Maids
Wash windows	Window cleaning
Shampoo rugs	Carpet and rug cleaners
Clean drapes	Drapery cleaners
Make minor repairs	Plumber, electrician
Repair appliances	Appliance repair
Paint the house	House painting
Make or restore furniture	Furniture, upholsterers
Build homes or additions	Home building, construction
Design the home	Architects
Decorate the home	Interior decorators
Exterminate pests	Pest control, exterminator
Family finances	
Fill out tax forms	Accountants, tax preparers
Establish a financial plan	Financial planners
Manage investments	Brokerages
Prepare will, legal documents	Lawyers
Personal care	
Cut and set hair	Barber, beauty salon
Groom (manicures, facials)	Beauty shops
Educate children	Schools, colleges
Babysit	Child care centers
Administer health or medical needs	Doctors, hospital
Care for the elderly	Nursing home
Exercise (jogging, calisthenics)	Health and fitness centers
Automobiles	
Maintain vehicles (change oil)	Auto service station
Wash and vacuum vehicles	Car wash
Repair vehicles	Auto repair
Miscellaneous	
Make gifts	Gift and craft shops
Care for pets	Kennel, veterinarian
Cut and split wood	Firewood, central heating
Repair mowers, bikes	Machine shops

New and Improved

From gadgets to wonder drugs, the list of products available to Americans gets longer by the day.

A sampling of new or greatly improved products since 1970

Microwave oven	Videocassette recorder
Camcorder	Laser printers
Voice mail	Cordless phone
Cellular phone	Personal computer
Ultrasound	Answering machine
Home security systems	Small-screen TVs
Synthesizers	CDs and CD players
Pagers	Remote controls
Quartz/digital watches	Sound systems
Fax machines	Digital/LED displays
Coffee makers	Video games
Electronic date books	Food processors
Electric knives	Aspartame
In-line rollerskates	Interactive toys
Miniature radios	Cable TV
Exercise equipment	Airbags
All-terrain vehicles	

Medical advances since 1970

Cosmetics (Retin-A)	CAT-scan
Organ transplants	Radial kerotonomy
Artificial pancreas	Monoclonal antibodies
Painkillers (acetaminophen, ibuprofen)	In vitro fertilization
	Soft contact lenses
	Cornea transplants
Cosmetic surgery (facelifts, implants, liposuction)	Decongestants
	Anti-allergenics
	Home pregnancy tests
Biosynthesized drugs (recombinant DNA techniques)	Anti-depressants
	Anti-ulcer drugs

households hire professionals to cook, clean, paint, design landscapes, figure taxes and much more.

Americans, for example, are finding ways to ease the burden of cooking at home. In 1993, restaurants received 43 percent of the country's spending on food, a big gain from the 33 percent of 1972. Eating out, once an occasional luxury, has become a way of life. Even when we eat at home, we often rely more on market goods—heat-and-serve products, microwave meals and carry-out items. Usually, these shortcuts raise the cost of feeding a family, but as consumers become wealthier, they often opt to pay extra for ease and convenience. Entrepreneurs haven't missed the trend away from home production: nearly all businesses whose services replace home production have shown strong gains in employment and sales in recent years.

There's a paradox in the GNP method of accounting. If a person were to marry his or her doctor (gardener, plumber, hair dresser, tax accountant and so forth) and no longer pay for these services, measured economic activity would decline by the amount of the professional fee. The family's true standard of living, however, would remain unchanged. This distortion reveals that GNP understates living standards by the value of what's produced and consumed in the home. Estimates suggest home production, if properly accounted for, would have boosted America's 1992 GNP by about a third, or *$2 trillion.*

Failure to properly account for households' nonmarket production probably wouldn't skew growth rates if the proportion of home and market consumption remained stable over time. The data show, however, that home production fell steadily from 45 percent of GNP at the end of World War II to 33 percent in 1973. It then leveled off. What was the impact on measured growth? The transfer of household chores to the market added 1.3 percentage points to measured annual GNP growth prior to 1973, implying an underlying growth rate for the period of just 2.2 percent. Adjustments after 1973 are insignificant. Merely recognizing the contribution of household production could bring growth rates of the past two decades into line with those experienced in the 1950s and 1960s.

Not Just More, But Better, Too

In judging whether Americans are better off, what should matter most are goods and services that bring enjoyment, provide convenience or reduce discomfort. In other words, the focus ought to be on consumption—the bulk, but not all, of GNP. Artifacts of everyday life provide proof of rising consumption during the past quarter century. The average number of televisions in a household rose from 1.4 in 1970 to 2.1 in 1990. Among those 15 years and older, passenger vehicles per 100,000 people increased from 61,400 in 1970 to 73,000 in 1991. Americans are enjoying more luxuries, too. The average amount spent on jewelry and watches, after adjusting for higher prices, more than doubled from 1970 to 1991.

Many Americans live in bigger and better houses. From 1970 to 1992, an average new home increased in size by the equivalent of two 15-foot by 20-foot rooms. New houses are much more likely to have central air conditioning and garages. What about stories that fewer U.S. residents can afford the essential piece of the American dream—a home of their own? The data don't support it. The rate of home ownership has held steady at around 65 percent of

Medical breakthroughs are enhancing and prolonging our lives.

With today's technology, almost no place is out of reach.

the population since 1970, and there's overwhelming evidence that today's houses are stocked with more appliances and gadgets than ever.

Microwave ovens, color televisions, videocassette recorders, answering machines, food processors, camcorders and exercise equipment are all now standard in many American homes. Three-quarters of U.S. homes had a clothes washer in 1990, up from less than two-thirds in 1970. At the same time, ownership of dryers jumped from 45 percent of households to almost 70 percent. About 45 percent of homes had dishwashers, up from 26 percent two decades ago. Between 1970 and 1990, the typical U.S. household gained 4.5 times more audio and video products, more than twice as much gear for sports and hobbies, 50 percent more in kitchen appliances and 30 percent more in furniture. In short, most Americans consume far more than previous generations.

Of course, we could be paying for our consumption by depleting our savings. The evidence, however, says it isn't so. Although Americans may not set aside as much as people in many other countries, the average American still has managed to gain net worth. The stock of real wealth per capita rose by 2 percent a year from 1970 to 1990. The nation has had the best of two worlds: consuming more in the present and setting aside more for the future—not a bad standard for "better off."

The news gets even better. As consumers, Americans can now possess products that didn't even exist for past generations. Twenty years ago, only a lucky few could show movies at home. Today, two of every three U.S. households own videocassette recorders. When Elvis was king of rock 'n' roll, many of his records succumbed to warps and scratches. Today's compact discs give us concert hall-quality sound. A decade ago, most motorists had to search out a pay telephone to make a call. Today, cellular technology has put a phone in millions of cars. Companies served 11 million subscribers in 1992, up from a mere 92,000 in 1984. The past 20 years also brought many important medical breakthroughs—new drugs, new treatments and new diagnostic tools—to enhance and prolong our lives.

We hardly notice many innovations that improve service. Fiber-optic cables greatly expand the capacity of telephone lines. Lasers on cash registers help speed us through check-out lines by scanning bar codes. Airbags await to cushion us from the impact of traffic accidents. Microprocessors guide pilots and air-traffic controllers. Doppler radar makes weather forecasts more reliable. These and a host of other products, many embedded with tiny silicon brains of their own, make our lives safer, easier, more convenient or just plain more fun.

Few facets of life are untouched by the arrival of new and better products, and GNP's measurement of consumption can easily fall short of properly accounting for improvements in quality. The traditional measures of standard of living—real per capita income, for example—use an index to compensate for rising prices. Statisticians can calculate exactly what Americans pay for cars, clothing, computers and clocks and occasionally try to adjust for better quality, but even their best efforts aren't likely to keep pace with the dizzying blitz of new products and features in a dynamic global economy.

Price indexes, too, are apt to understate gains in product longevity, new features or better performance. The price of a tire, for example, rose from $13 in the mid-1930s to about $70 in early 1994, entering into a price index for tires as an increase of about 1.5 percent a year. However, today's steel-belted radials last more than 10 times longer than the old four-ply cotton tires. Based on cost per 1,000 miles, tires now actually sell for less than half what they did 50 years ago. Even more astounding, an average worker in the 1930s worked almost four hours to buy those 1,000 miles. Today, the cost is less than five minutes. The benefits don't stop there: drivers in safer cars are better off because they have fewer accidents, reducing the amount of time and money spent on repairs. Safer highways may lower GNP, but they raise the standard of living.

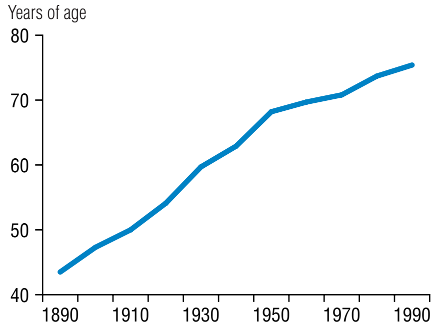
Quirks of this sort permeate the price indexes. Modern fabrics last longer and require less care, adding to the value of clothing and linens. Frost-free refrigerators make the messy chore of defrosting a fading memory. In just the past decade, computers and the software to run them improved in speed, memory and ease of use by leaps and bounds. The rapidly rising cost of health care is a major national issue, but at least part of the increase in hospital fees and drug prices is the result of better quality. Car lovers may wax nostalgic about the Corvettes and Mustangs of yesteryear, but today's cars go farther on a gallon of gas. What's more, they've been improved with antilock brakes, fuel injectors, turbochargers, cruise control and sound systems that outperform even the home stereos of 1970. Today's cars, with as many as 25 tiny microprocessors aboard, require less maintenance, too.

Price indexes are also slow to incorporate the myriad of new products coming into common use. Pocket calculators entered the U.S. consumer price index in 1978—only after the prices for these

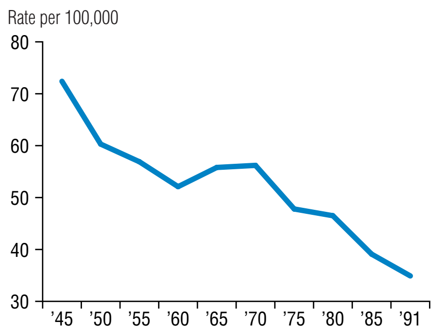
Quality of Life

While GNP is measured in dollars and cents, many factors affect living standards. Trends toward longer life spans, fewer accidents and decreasing air pollution suggest that U.S. living standards have continued to improve in recent years. New data even show progress in fighting crime.

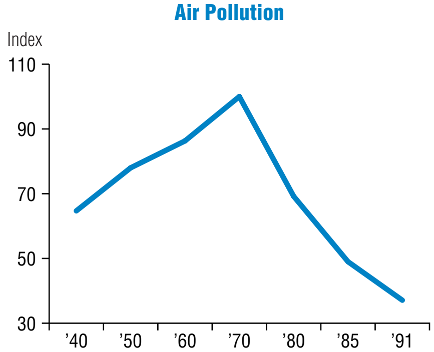
Longevity



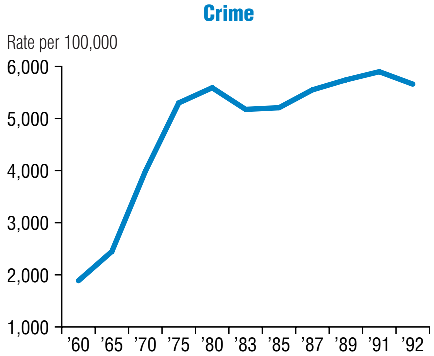
Accidental Deaths



Air Pollution



Crime



smaller, more powerful models fell by 98 percent from those of the electromechanical desktop devices they replaced. Statisticians missed 99 percent of the price decrease in penicillin. The list could go on: quality improvements are widespread in an age of advanced technology, with new products coming to the market just about every week.

Any failure to properly account for better quality makes price indexes exaggerate increases in the cost of living. Economists frequently debate the extent of upward bias in inflation, but some studies suggest the bias might be significant—from a low of a third of a percentage point a year to as much as 2 percentage points over the past two decades. When price indexes overcompensate for inflation, they make GNP growth seem smaller than it actually is.

Price-index problems have always existed. New products have been introduced and improvements in quality have taken place in previous eras, but there's reason to believe they are greater now, during rapidly expanding technology and trade. Companies face intensifying competition and shrinking product cycles: the latest breakthroughs and updated models seem to be coming faster and faster. Record players reigned for decades before cassette tapes. The time between cassettes and compact discs was much shorter. Now, digital audio tape and recordable CDs are arriving. New models of computer chips once came out every few years. Now, it's nearly an annual event. Accelerated technical progress makes it harder for the statisticians to accurately measure GNP and harder for GNP to serve as a proxy for living standards.

Some Other Rays of Light

More leisure and higher consumption aren't the only ways people's lives have improved. Especially as societies become richer, citizens tend to put greater importance on nonmaterial factors that affect living standards: better health, safety, more pleasant working conditions, a cleaner environment. All of us could add other considerations we value. "The good life" becomes harder to measure when we move beyond the dollars and cents accounting of GNP data. Even so, there is evidence to counter fears that U.S. living standards are getting worse.

Longevity may be the most important measure of well-being in a modern society. The data show that an average American's life expectancy at birth has increased each decade during the past century. As might be expected, the biggest gains came in the first half of the 20th century, but the upward trend continues. In the past decade, the life span rose by more than one year and eight months.

Many Americans use leisure time to pursue better health.

As technological innovations and economic progress continue, today's children can expect longer life spans and higher living standards.

What's more, the population generally sees itself as healthier. Surveys by the U.S. Department of Health and Human Services show a steady drop in the proportion of Americans who rate their health as "fair or poor," from 12.2 percent in 1975 to 9.3 percent in 1991. Infant mortality rates fell from 20 deaths per 1,000 live births in 1970 to less than nine in 1991. The death rate from natural causes fell by 27 percent from 1970 to 1990, with the most progress coming in diseases of the heart. Cancer death rates are up slightly, but modern medical science provides treatments that prolong life. The portion of the adult population with high cholesterol fell sharply over the past two decades. What once was fatal can in many cases now be treated. Heart, liver and lung transplants, almost unheard of in the early 1970s, are common today.

The country isn't just healthier; it's also safer in some respects. Accidental deaths have declined in every category, especially since 1970. Homes are safer. The workplace is safer. In 1991, 88,000 Americans died in accidents, the lowest figure since 1924. Highway deaths totaled 43,500 in 1991, the lowest they've been since 1962. Even more encouraging, the death rate per 100 million miles traveled on the nation's roads fell from three in 1975 to 1.8 in 1990. At the higher rate, an additional 25,000 people would have died in 1990. The incidence of death from crashes of scheduled airliners has decreased to just a fraction of what it was 20 years ago.

When it comes to time at work, improvement in the quality of life continues, at least for most Americans. The trend toward service employment has rescued many Americans from the daily grind of the manufacturing assembly line. And in manufacturing, modern robots assist worker effort, meaning less wear and tear on the human body. Observers also find greater workplace flexibility in the form of breaks, exercising and socializing. Properly understood, this time isn't shirking. It goes for rest, birthday parties, fitness classes and awards ceremonies that employers support as tools to improve morale and efficiency.

What's more, trends point toward greater flexibility of scheduling to reduce stress involved in meeting family responsibilities. The number of people with flexible job hours rose from 9.1 million in 1985 to 12.1 million in 1991. New technologies—modems, E-mail, fax machines, digital networks—create opportunities for unheard of freedom from the confines of yesterday's 8-to-5 straitjacket. The ranks of white-collar telecommuters, for example, swelled to 6.6 million in 1992, saving at least some employees the bumper-to-bumper grind of an old-style commute. Imagine the possibilities: a lucky worker can type a report into a laptop computer while sitting in a beach chair in Maui, then send it to the office in Dallas via cellular circuits. With improving battery technology, there's no need for even an extension cord.

Safety at work has gotten better, too. Accidental deaths at work have declined consistently since at least 1945. Injuries on the job haven't declined in recent years, but they are well below the levels of previous decades. If the hot, unsavory sweat shop symbolized the workplace of a bygone era, today's standard might be the air-conditioned office and, at an increasing number of firms, employee cafeterias, daycare centers, break rooms and exercise facilities.

Some data show that wages fell over the past 20 years. Yet those statistical series ignore the rapid growth of fringe benefits: with high tax rates, workers often prefer to take their higher pay in the form of additional health care, contributions to retirement funds or employee assistance programs. Figures on total compensation, which include extras employers pay for, don't show a decline. Some workers are finding their benefits packages becoming leaner, but many others are getting new perks. Overall, nonpay compensation as a percentage of payroll is up a third since 1970. Compared with a generation ago, more employers are offering eye care, dental plans, paid maternity leave and stock-purchase plans. Today's most progressive companies are starting to offer day care and paternity leave. It's impossible to prove whether workplace abuses are declining. Even so, workers today have greater redress for unfair dismissal, sexual harassment and other problems.

Americans are also making progress in improving the environment. Levels of such major pollutants as particulate matter, sulfur oxides, volatile organic compounds, carbon monoxide and lead were their highest in 1970 or before. Levels of nitrogen oxides peaked in 1980. Overall, air quality is better now than at any time since data collection in 1940. Water quality has improved since the 1960s, when authorities banned fishing in Lake Erie and fires erupted on the polluted Cuyahoga River near Cleveland. The U.S. Geological Survey, examining trends since 1980, found that fecal coliform bacteria and phosphorous have decreased substantially in many parts of the country. Other traditional indicators of water quality—dissolved oxygen, dissolved solids, nitrate and suspended sediments—have shown little change.

Despite such gains, we live in a complex world, and it would be surprising if by every measure the country's life were getting better. The general gains in health are clouded by the AIDS epidemic. Air and water may be getting cleaner, but they still aren't pristine. Environmentalists warn of global warming, deforestation, hazardous waste dumping and endangered species. Working conditions may have become more pleasant for most Americans, but some workers displaced by downsizing may have new jobs that aren't as good as the ones they lost, or they may have no job at all. Even among the 120 million employed in the United States, reports of widespread layoffs cause anxiety about job security.

We are even more anxious about the increasing incidence of crime and violence. In polls taken in early 1994, crime ranked first among Americans' worries. The data indicate why. Crime worsened in the 1970s and remains high. But even here there's some encouraging news. Figures for the first half of 1993 show that crime rates are ebbing—by 3 percent in violent offenses. Clearly, Americans' well-being will improve if the country can sustain a trend toward less crime.

Diseases, pollution, unemployment and crime are but a few of the threats to our living standards, but we should not let them overshadow two decades of progress.

A Last Look at Standards of Living

Rising living standards may be the ultimate test of an economic system. The very notion of economic progress depends in large measure on the potential for most people to become increasingly better off. Successful economies make their citizens richer and happier. Failing ones leave them poorer.

Americans may question whether we're becoming better off. By historical standards, the past two decades' 2.5-percent growth in GNP just doesn't measure up. But GNP does not tell the whole story. A more careful look at leisure, home production, new products, quality improvements and noneconomic indicators casts doubt on claims that the U.S. economy's rate of progress peaked a generation ago. If nothing else, this broader view proves the concept of standard of living cannot be captured by one or two numbers. By broadening our view, we find evidence that Americans are still building a better life. When all's said and done, the gains in recent years probably aren't too different from what they were a generation ago, when capitalism's capacity for progress was hardly questioned.

Why, then, do so many people seem to feel the country has lost its momentum? The question defies an easy answer. Part of the reason may be that many people aren't aware of the quiet improvement in so many areas of their lives—from more leisure to bigger houses and better health. They are, on the other hand, tuned into ills around them on a daily basis—AIDs, global warming and crime, to cite just three examples. And rightly so: these are problems that need attention.

Furthermore, there's a normal human tendency to romanticize the past. Looking back at the high-growth years from 1960 to 1973, for example, the nostalgic may gloss over many unsettling events. The country wrestled with the real possibility of nuclear annihilation, an unpopular war in Vietnam, racial strife that erupted in rioting, assassinations, political scandal and high rates of poverty. Many later problems—inflation in the 1970s, toxic waste dumps that needed cleaning up in the 1980s—trace their origins back to those "good old days."

History books can tell us about how Americans once lived. For the grandparents or great-grandparents of today's workers, life really was a struggle. Hours of work stretched from dawn to well after dusk. Workplaces were often dimly lit, dirty and dangerous. Houses were hot in the summer, cold in the winter. At home, the daily chores were unending and back-breaking. Death came early. The social critics of the time attributed much of the harshness of everyday life to the failings of capitalism.

Looking backward over a century or more, though, it's obvious that the free enterprise system works—and works well, so long as private profit incentives are unfettered by government taxes, regulation, debt, policy instability or other burdens. Herein lies the secret to growth. If we let the system work, then every successive generation ought to be able to claim that "these are the good old days." Few Americans would fail to recognize that living standards have improved by leaps and bounds over the long sweep of time. Our Rip Van Winkle, his eyes not blinded by nostalgia or negativism, sees quite clearly that it's still true today. His fresh perspective affirms the promise of even higher living standards in the future—as long as we allow the free enterprise system to work. ◆

Americans today can look forward to retirement years, something that was almost unheard of in our great-grandparents' era.

IN THE PAST TWO DECADES, Americans worried not only about the country's ability to keep pace with its own past performance but also about a failure to grow as fast as many other countries.

The numbers are fairly familiar. From 1973 to 1990, per capita GNP in the United States grew by an average 1.5 percent a year. By contrast, average annual economic gains were 3.1 percent for Japan and 2 percent for Germany. While the United States seemed to crawl forward, such developing countries as Korea, Taiwan, Thailand and, most recently, China managed to get their economies moving briskly. About GNP growth, Americans often ask, why are other nations doing so much better?

The answer lies in a notion called *convergence*. Envision an explorer wielding a machete to cut a path through a dense jungle. He goes slowly, hacking his way forward, destination not really known. Those who come behind him have a much easier time of it. They see the path. They know where they're going. They can move faster, gaining ground on the trailblazer.

That's just about what happens with economies. Using the sharp saber of free enterprise, the most advanced nations open the pathway for others by developing markets, technology, business systems and infrastructure—in effect, creating a successful model. Less developed countries can quickly adopt what works and exploit existing markets, and it shows up in faster rates of growth. In short, catching up takes less effort. Some nations don't emulate successful examples. Those that do tend to converge with the leaders in economic performance.

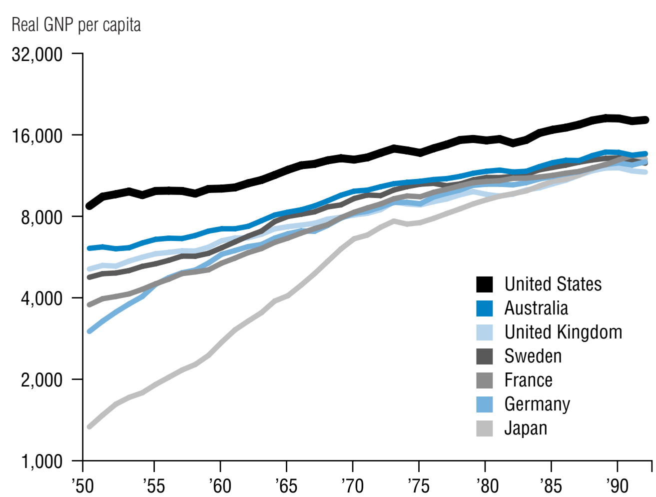
Without question, other nations are catching up to the United States. Per capita output in Japan rose from 50 percent of the U.S. average in 1970 to 72 percent in 1992. Germany moved up from 63 percent to 70 percent. Even so, the United States still hasn't lost its lead—and it's not likely to do so.

As other countries move closer to the U.S. level of development, their growth rates slow and converge toward the U.S. performance. Take Japan, for example. Its average annual growth rate outdid that of the United States by 6.9 percentage points in the 1960s, by 2.3 percentage points in the 1970s and by 1.7 percentage points in the 1980s. At the end of the latest decade, some predicted Japan would overtake the United States as the world's biggest economy. In the 1990s, however, both countries are likely to grow at about the same rate. Unless Japan experiences a renewed spurt of growth, it will not catch the United States.

To some Americans, faster growth abroad is a threat. Nothing could be further from the truth. The United States doesn't benefit when other countries stumble economically. Quite to the contrary, strong growth abroad provides opportunities for U.S. exports and business deals. All countries will move faster if they travel together. ◆

A High Standard

For decades, the United States was the unchallenged leader in per capita GNP growth. Since the 1950s, GNP in other countries has risen faster than, but failed to match, the U.S. level.



EVEN IF AMERICANS' living standards aren't slipping, the U.S. economy can do better. Boosting the rate of GNP growth would make Americans even better off and help solve some of the country's problems—unemployment, poverty and budget deficits, to name just a few.

The U.S. economy has expanded by an average of 2.5 percent a year since 1973. Present and future generations of Americans would end up with much higher living standards if the economy could jump back to the 3.5-percent standard set in the century before 1973. The mathematics of it are straightforward but the results eye-opening: at the end of an average lifetime, the economy would be twice as large with the addition of just one percentage point a year to growth.

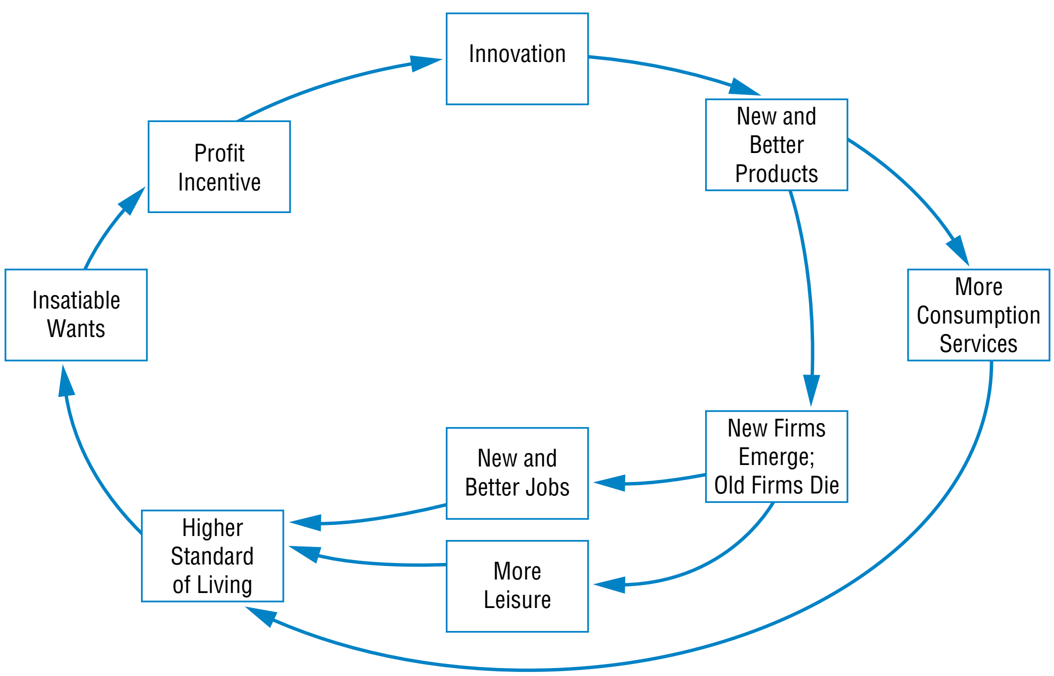
Inquiry into what makes economies grow dates back at least as far as Adam Smith's *Wealth of Nations*, published in 1776. In the past decade, with growth slowing in many parts of the world, the question has experienced a revival of interest, becoming one of economists' hottest research topics. The latest thinking recognizes that growth doesn't just happen. Instead, it arises out of the economic environment itself. The key is a stable framework of rights, freedoms and incentives that will spur individuals to work, businesses to produce and entrepreneurs to innovate.

In a free enterprise system, growth is a natural and continuous process, but it must be nurtured by the correct policies. The following are the basic secrets of growth.

Establish and preserve property rights. Private ownership of the means of production allows individuals to reap the rewards from economic activity, thus encouraging efficient use of resources to satisfy consumer wants. People produce more when working

Endogenous Growth:
Capitalism's Perpetual Motion Machine

Insatiable consumer wants, combined with the pursuit of self-interest, provide an endless fuel for economic growth. This diagram illustrates how the process works. Consumers will always want more than they have. The profit incentive, when allowed to operate, will continually power a quest for new ways to meet the needs of consumers. Innovation leads to the introduction of new and better products, which enhances consumption. New firms emerge to produce these products. In the process, they take business from old companies. The rising enterprises hire people for new and better jobs. Living standards rise. Even so, consumers still aren't satisfied and want more. 'Round and 'round it goes. The system slows if something—bad policies, for example—creates an impediment. The secrets of growth make it go faster.



in their own self-interest: altruism is a weak motive when compared with the incentive for profit and personal material gain.

Create market-friendly institutions. Markets won't function properly without an appropriate legal code. Contracts need to be enforced. Property rights need to be upheld. Monopoly needs to be controlled. Institutions should facilitate economic activity and complement innovation.

Maintain stable government policies. Households and businesses can pursue their economic interests only if government honors all promises—implicit and explicit. Frequent changes in tax laws or other government policies create uncertainty and instability that can make a mockery of long-range planning.

Avoid protecting existing jobs, industries or businesses. The natural forces of creative destruction continuously regenerate the economy, but protection from failure prevents new, better or cheaper products from replacing older ones. By rejecting a paternalistic role for government, decision-making and responsibility stay in citizens' hands, where they can be best used to make the hard choices that new opportunities bring.

Keep taxes low and simple. People will work harder and invest more when they can keep a larger share of what they earn. Taxes that don't discourage work or investment—such as user fees or levies on consumption—are less harmful to the economy. Loopholes and special favors divert resources to less efficient uses.

Abstain from excessive regulation. Licenses, permits, fees and other burdens of operating businesses provide the same disincentives as taxes. Efforts to deregulate and privatize will pay off by increasing the rewards of going into business and hiring new employees.

Invest in infrastructure. Government spending on transportation facilities and other investment-type projects can enhance the efficiency of the private sector and facilitate commerce.

Maintain stable prices. Gyrations in the general price level wreak havoc on decision-making by businesses, households and governments. Steady, sensible control of the supply of money is the key to maintaining the currency's purchasing power. Low inflation will facilitate the efficient exchange of goods and services.

Nurture business credit, particularly for entrepreneurs. Keeping government debt low will conserve credit for use by private business. It's tempting to try to legislate away credit risk with government guarantees, but such programs distort the allocation of investment funds and supplant the natural discipline of failure in the marketplace.

Focus unemployment outlays on retraining. The bulk of unemployment funds should be used to prepare displaced workers for new jobs and provide incentives to work. Only a minimum payment should go for passive unemployment.

Make education a priority. A better educated work force is more productive, and it speeds the introduction of new technology. Tax laws ought to treat education as a depreciable capital good, equal to, if not more important than, physical capital. Allowing choice in schools will foster competition and improve quality.

Promote free trade. Tariffs, quotas and other trade barriers decrease competition and deny an economy the full advantage of the production efficiencies offered throughout the world. Free trade makes all nations wealthier. ◆

Acknowledgment

"These Are The Good Old Days: A Report on U.S. Living Standards" was written by W. Michael Cox and Richard Alm. The essay is based on research conducted by W. Michael Cox, vice president and economic advisor, Federal Reserve Bank of Dallas.

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THE YEAR in REVIEW

IN 1993, THE FEDERAL RESERVE BANK OF DALLAS BUILT UPON THE FOUNDATION LAID BY ITS MOVE INTO STATE-OF-THE-ART FACILITIES A YEAR EARLIER. EFFORTS TO STREAMLINE OPERATIONS AND INCORPORATE TECHNOLOGICAL ADVANCES PAID SIGNIFICANT DIVIDENDS BY PROVIDING INCREASED EFFICIENCY AND EXPANDED FLEXIBILITY IN SERVICES TO THE ELEVENTH DISTRICT'S FINANCIAL INSTITUTIONS. MOREOVER, continued moves toward consolidation in the Dallas Fed's operational areas were carefully balanced with the development of several programs to enhance quality and customer service. Overall, 1993 was a year in which the Bank took advantage of a variety of innovative programs and ideas to meet the challenge of providing cost-effective and reliable financial services while promoting safe and sound banking and economic growth throughout the District.

Eleventh District Economic Overview

The Eleventh District experienced moderate economic growth in 1993, outperforming the national economy for the fourth consecutive year. Nonfarm employment in Texas, Louisiana and New Mexico rose 2.2 percent last year, compared with 1.8 percent for the nation. Texas posted a gain of more than 2 percent, while New Mexico showed the greatest strength with an employment increase of more than 4.5 percent. Louisiana's increase was 1.2 percent.

The primary factors behind the Texas economy's growth were strong construction activity, a stable energy industry and exports to Mexico. Industries that trade with Mexico were among Texas' strongest in 1993 and should receive a boost in 1994 from a stronger Mexican economy and the passage of the North American Free Trade Agreement. Low interest rates, stable home values and favorable demographics continued to fuel growth in single-family home construction in the state, while high natural gas prices encouraged relatively strong drilling activity.

The principal sources of strength in New Mexico were business relocation and expansion, a single-family housing boom and an increase in natural gas production. Louisiana, meanwhile, continued to combat losses in the energy industry, as falling oil prices led to more movement out of the oil extraction business and worldwide demand for chemical products remained weak.

Dallas Fed Financial Services

In 1993, the Dallas Fed focused its financial services efforts on improving the quality of products and services and implementing an aggressive cost containment program. In check collection, this resulted in fewer internal errors, a reduction in the amount of time required to resolve adjustments, an increase in productivity and a reduction in costs, all of which translated into savings that will be passed on to the Bank's customers. Moreover, to meet the multiplying financial service needs in the District and help customers operate as efficiently as possible, the Bank developed more than a dozen new paper- and electronic-check products. Advances were also made in the Bank's system for handling check adjustments, as tests were completed for an automated adjustments system that will be implemented in early 1994. The new system will improve the level of service to financial institutions by increasing the number of adjustments cases that can be researched and resolved on a same-day basis. In addition, in 1993 the Bank laid the groundwork to test medium-speed check imaging. Successful completion of a pilot project will enable the Dallas Fed to provide state-of-the-art check imaging services throughout the District beginning in mid-1994.

In currency and coin operations, the Dallas Fed's top priority was strengthening procedures to ensure quality and security and integrating a new currency vault materials handling process into the automated cash management system. The Bank also advanced the Federal Reserve System's efforts to improve the quality of currency in circulation by hosting a series of cash operations seminars for financial institutions throughout the District, and added an international dimension to the System's effort to increase counterfeit awareness by holding detection symposiums for management and staff at Banco de México.

Continuing the System's consolidation of its computer operations, the Bank's automated clearinghouse (ACH) and funds transfer functions were successfully shifted to Federal Reserve Automation Services at the Dallas Fed and at the Federal Reserve Bank of Richmond, two of the three System consolidation sites. ACH and funds transfer customers experienced no service disruptions during the transition, and the Bank was able to make progress in reducing electronic payments-related expenses.

The Dallas Fed's securities area was also heavily involved in consolidation activities that take advantage of advances in automation technology. The Bank's book-entry securities processing function and its data processing support for Treasury tax and loan and savings bond applications were both transferred to automation consolidation sites, and the District's savings bond operations were merged with those of the Federal Reserve Bank of Kansas City.

Banking Supervision; Discount and Credit

In 1993, low market interest rates, wide interest spreads and changes in accounting rules helped the Eleventh District's commercial banking industry post another year of strong profits. The return on District banking assets was 1.4 percent, exceeding the 1.2 percent return of 1992. Moreover, the number of bank failures, which dropped from 31 in 1992 to 10 in 1993, was the lowest in eight years.

As the supervisor of state member banks and bank holding companies in the District, the Dallas Fed is responsible for conducting examinations for safety and soundness and for compliance with consumer protection laws as well as the Community Reinvestment Act. Reflecting the stable health of the District's banking industry, the Bank conducted nearly the same number of examinations last year as the year before—432 examinations in 1993 compared with 430 exams in 1992. Of the 432 examinations, 41 were reviews for compliance with consumer and civil rights legislation.

Consolidation activity in the Eleventh District in 1993 increased slightly from a year earlier. The Dallas Fed processed 229 applications for mergers and acquisitions, changes in control and management, and other actions requiring regulatory approval, up from 207 such applications in 1992.

Because of a substantial decrease in seasonal lending to meet the temporary liquidity needs of financial institutions in the District, the number of loans extended by the Dallas Fed's discount window dropped from 521 in 1992 to 210 in 1993, with total credit extended decreasing from $1.3 billion in 1992 to $380 million in 1993.

The 52 state-chartered banks under the Dallas Fed's supervision in 1993 represented about 4 percent of all insured commercial banks in the District and held more than 2 percent of all insured commercial bank assets. The more than 530 bank holding companies under Dallas Fed supervision last year controlled 650 insured commercial banks that hold approximately 34 percent of all insured commercial bank assets in the District. Foreign banks continue to play a significant role in the District's financial activities, with 36 foreign banks from 14 countries operating 21 state-licensed agencies and 23 representative offices.

Research and Public Affairs

Economic research and public affairs activities at the Dallas Fed in 1993 focused on the promotion of a better understanding of free enterprise and its significance to the Southwest region's economy, particularly in the area of free trade. The year was highlighted by efforts to research and provide information on the international aspects of free trade—from exchange rates, the role of financial institutions in the international economy and intellectual property rights to developing-country debt and the Mexican financial system. Moreover, the Center for Latin American Economics was established at the Bank to foster further research in this area. The Bank also studied the financial industry, looking into such issues as the "missing money" in the M2 figures, recession and recovery cycles, and the credit crunch.

Numerous publications were produced for a variety of Eleventh District audiences in support of the Bank's research and economic education efforts. In addition to regular issues of *Economic Review, The Southwest Economy, Financial Industry Studies, Financial Industry Issues* and *Houston Business*, special editions of *The Southwest Economy* focusing on NAFTA and on the missing M2 were generated, as were two economic study guides for teachers and student-oriented brochures on labor and international trade. The Bank sponsored a pair of conferences in 1993—one on imperatives for banking in the 1990s, the other on North American free trade—and held nearly two dozen workshops across the District to educate teachers on such topics as free enterprise and free trade. As part of its continuing efforts to encourage community development in the region, the Bank also hosted a community investment lending conference and conducted several workshops on community reinvestment policy issues and requirements.

One of the final public affairs activities of the year—an effort that should, well into the future, educate the public about the central bank's role in maintaining a stable economy—was the completion of Bank tour exhibits. Designed and constructed over a period of two years, the exhibits will serve as the focal point of public tours that will begin at the Bank in 1994.

In retrospect, the Dallas Fed's activities in 1993 reflect a heightened effort to meet the multiplying needs of its constituents. Even as the banking industry continues to undergo major change, the Dallas Fed's objectives remain consistent—to provide the highest quality, most cost-efficient financial services available, while serving as a vital conduit for sound banking and economic growth throughout the Eleventh District. ◆

Federal Reserve Bank of Dallas

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Houston, Texas

Deputy Chairman:
Cece Smith
General Partner
Phillips–Smith Specialty Retail Group
Dallas, Texas

Jeff Austin, Jr.
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Texas National Bank
Longview, Texas

Milton Carroll
Chairman of the Board and Chief Executive Officer
Instrument Products, Inc.
Houston, Texas

J. B. Cooper, Jr.
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T. C. Frost
Chairman of the Board
Frost National Bank
San Antonio, Texas

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Third General Vice President
International Association of Bridge, Structural and Ornamental Iron Workers
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Panhandle, Texas

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Midland, Texas

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El Paso, Texas

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El Campo, Texas
President and Director
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Solar & Ellis L.L.P.
Houston, Texas

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Corpus Christi, Texas

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San Antonio, Texas

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Ingram, Texas

Sam R. Sparks
President
Sam R. Sparks, Inc.
Progreso, Texas

Effective December 31, 1993

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Monroe, Louisiana

Jack Antonini
President and Chief Executive Officer
USAA Federal Savings Bank
San Antonio, Texas

John H. Arnold
President and Chief Executive Officer
Southwest Corporate Federal Credit Union
Dallas, Texas

Jack A. Collins
President and Chief Executive Officer
The Bank of the West
Austin, Texas

P. M. Elvir
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Operations and Cash Management
Bank One, Texas, N.A.
Dallas, Texas

Robert G. Greer
Chairman
Tanglewood Bank, N.A.
Houston, Texas

Ron Humphreys
Senior Vice President
Marketing and Operations
First Savings Bank FSB
Clovis, New Mexico

Don Powell
Chairman, President and Chief Executive Officer
The First National Bank of Amarillo
Amarillo, Texas

Jimmy Seay
President and Chief Executive Officer
The City National Bank
Mineral Wells, Texas

Sandra M. Smith
President and Chief Executive Officer
Texas Federal Credit Union
Dallas, Texas

Hayden D. Watson
Executive Vice President
First Interstate Bank of Texas, N.A.
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Small Business and Agriculture

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President
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Stark Productions, Inc.
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Tharp Farms
Las Cruces, New Mexico

L. C. Unfred
Farmer
New Home, Texas

Jeffrey W. Wilson
President
Cattle Baron Restaurant, Inc.
Roswell, New Mexico

Effective December 31, 1993

	December 31, 1993 (Thousands)	December 31, 1992 (Thousands)
ASSETS		
Gold certificate account[1]	$ 510,000	$ 463,000
Special drawing rights certificate account[2]	377,000	377,000
Coin	41,648	27,426
Loans to depository institutions	0	0
Securities:		
Federal agency obligations	198,648	198,566
U.S. government securities	14,219,076	10,822,673
Total securities	$ 14,417,724	$ 11,021,239
Items in process of collection	511,231	418,164
Bank premises (net)	158,195	161,185
Other assets	1,930,269	1,998,586
Interdistrict settlement account	(2,830,800)	2,314,128
TOTAL ASSETS	$ 15,115,267	$ 16,780,728
LIABILITIES		
Federal Reserve notes	$ 12,096,542	$ 14,082,302
Deposits:		
Depository institutions	2,020,501	1,808,300
Foreign	9,646	11,092
Other	3,767	26,894
Total deposits	$ 2,033,914	$ 1,846,286
Deferred credit items	380,451	355,660
Other liabilities	112,290	72,594
TOTAL LIABILITIES	$ 14,623,197	$ 16,356,842
CAPITAL ACCOUNTS		
Capital paid in	$ 246,035	$ 211,943
Surplus	246,035	211,943
TOTAL CAPITAL ACCOUNTS	$ 492,070	$ 423,886
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$ 15,115,267	$ 16,780,728

[1] *This Bank's share of gold certificates deposited by the U.S. Treasury with the Federal Reserve System.*

[2] *This Bank's share of special drawing rights certificates deposited by the U.S. Treasury with the Federal Reserve Bank of New York.*

	For the year ended December 31 1993 (Thousands)	1992 (Thousands)
CURRENT INCOME		
Interest on loans	$ 97	$ 181
Interest on government securities	687,482	645,883
Income on foreign currency	87,713	168,875
Income from priced services	54,171	53,345
Other income	236	290
Total current income	$ 829,699	$ 868,574
CURRENT EXPENSES		
Current operating expenses	$ 115,241	$ 107,879
Less expenses reimbursed	9,317	8,863
Current net operating expenses	$ 105,924	$ 99,016
Cost of earnings credits	7,932	11,217
Current net expenses	$ 113,856	$ 110,233
CURRENT NET INCOME	$ 715,843	$ 758,341
PROFIT AND LOSS		
Additions to current net income:		
Profit on sales of government securities (net)	$ 1,583	$ 4,565
Profit on foreign exchange transactions (net)	18,426	0
Other additions	10	4
Total additions	$ 20,019	$ 4,569
Deductions from current net income:		
Loss on sales of government securities (net)	$ 0	$ 0
Loss on foreign exchange transactions (net)	0	86,081
Other deductions	29,448	36
Total deductions	$ 29,448	$ 86,117
Net additions (deductions)	$ (9,429)	$ (81,548)
Cost of unreimbursable Treasury services	$ 2,371	$ 2,318
Assessment by Board of Governors:		
Expenditures	$ 9,932	$ 10,274
Federal Reserve currency costs	16,564	14,354
NET INCOME AVAILABLE FOR DISTRIBUTION	$ 677,547	$ 649,847

	For the year ended December 31	
	1993	1992
	(Thousands)	(Thousands)
Surplus, January 1	$ 211,943	$ 211,440
Net income available for distribution	677,547	649,847
LESS:		
Dividends paid	14,334	13,077
Payments to the U.S. Treasury	629,121	636,267
Net amount transferred to (from) surplus	$ 34,092	$ 503
Surplus, December 31	$ 246,035	$ 211,943

District Summary

	Number of Pieces Handled		Dollar Amount (Thousands)	
	1993	*1992*	*1993*	*1992*
Currency received and counted	1,137,737,587	984,670,412	17,207,161	15,556,204
Coin received and counted	1,333,702,015	724,822,479	196,731	127,515
Food stamps redeemed	464,601,664	436,547,796	2,396,819	2,241,908
Transfers of funds	6,434,362	6,199,053	10,636,232,838	8,082,428,378
CHECKS HANDLED				
Commercial—processed*	1,146,543,615	1,105,328,973	671,186,816	607,988,036
Commercial—fine sorted	503,800,889	476,632,826	139,944,287	124,205,173
U.S. government checks	29,740,142	29,769,663	31,608,562	36,933,809
ACH ITEMS HANDLED				
Commercial	151,236,263	128,009,669	576,708,956	509,256,382
U.S. government	50,652,442	46,265,782	60,724,041	54,355,908
COLLECTION ITEMS HANDLED				
U.S. government coupons paid	8,841	11,519	8,577	9,867
Municipal coupons and bonds	8,305	132,126	545,965	292,312
ISSUES, REDEMPTIONS, EXCHANGES OF U.S. GOVERNMENT SECURITIES				
Definitive and book-entry	2,954,922	3,403,064	2,877,908,104	1,876,923,996
LOANS				
Advances made	210	521	388,882	1,295,073

**Exclusive of checks drawn on Federal Reserve Banks.*

Federal Reserve Bank of Dallas

Dallas

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D. Karen Salisbury
Operations Officer

Effective January 1, 1994

The Federal Reserve Bank of Dallas is one of 12 regional Federal Reserve Banks in the United States. Together with the Board of Governors in Washington, D.C., these organizations form the Federal Reserve System and function as the nation's central bank. The System's basic purpose is to provide a flow of money and credit that will foster orderly economic growth and a stable dollar. In addition, Federal Reserve Banks supervise banks and bank holding companies and provide certain financial services to the banking industry, the federal government and the public.

Since 1914, the Federal Reserve Bank of Dallas has served the financial institutions in the Eleventh District. The Eleventh District encompasses 350,000 square miles and comprises the state of Texas, northern Louisiana and southern New Mexico. The three branch offices of the Federal Reserve Bank of Dallas are in El Paso, Houston and San Antonio.

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