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Bureau of Business and Government Research
Midwestern State University
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BUREAU OF BUSINESS AND GOVERNMENT RESEARCH
MIDWESTERN STATE UNIVERSITY
WICHITA FALLS, TEXAS

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2. To conduct and encourage research related to the local community.

3. To promote public understanding of contemporary economic, business, and government issues.

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FORWARD

Yoshi Fukasawa, Director
Bureau of Business and Government Research
Midwestern State University

The 1988 Bureau Seminar, held at Midwestern State University on September 27, 1988, dealt with the issues of international trade and finance. The seminar featured representatives from two of the most important trading partners of the U. S. The first two articles in this **Review** are addresses delivered by the Honorable Yasuo Hori, Consul-General of Japan and Dr. Manfred Emmes, Consul of the Federal Republic of Germany.

The **Review** also features the following:

"Texas Entrepreneurs Rate Themselves on Business Skills", by Dr. Bob Wooten, Professor of Management, Lamar University and Dr. Charles McCullough, Professor of Marketing, Midwestern State University;

"American Trusts", by Warren E. Moeller, Associate Professor of Business Administration and James Allen Willis, an MBA student at Midwestern State University; and

"Effects of Monetary Acts of 1980's on Savings and Loan Associations in the United States and Texas", by Dr. Robert Welch, Professor of Economics, Midwestern State University.

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JAPAN—U.S. ECONOMIC RELATIONS: PRESENT AND FUTURE

An Address by Mr. Yasuao Hori, Consul-General of Japan at Houston

Thank you for inviting me here to speak. My topic today is **JAPAN-U. S. ECONOMIC RELATIONS: PRESENT AND FUTURE.**

BILATERAL RELATIONS

Let me begin by noting that the relationship between our two countries is a deep and strong one. There are firm ties of friendship and mutual respect between us. Relations have not been better. We share a common vision based on our commitment to democratic values and freedom. The dialogue between us is candid and pleasant. Yet we both retain an individuality rooted in our different cultural and historical experiences. These differences can, at times, create gaps between our mutual perceptions of each other. Such gaps are perhaps inevitable. As a relationship matures, a greater sense of understanding and respect develops between the two partners. This is what I believe is happening today between Japan and the United States.

When two countries become more closely intertwined, frictions and misunderstandings are bound to arise. The future success of the relationship hinges on how the partners go about resolving these problems. If they opt for confrontation and conflict, disagreements in one area are likely to spill over into other areas and poison the relationship. On the other hand, if they commit themselves to finding common ground the cooperative solutions, the future is promising.

I think this is the consensus that is emerging in our relationship. Dialogue and candid exchange of opinions are a hallmark of our approach to problem-solving. This approach has already demonstrated our capacity to resolve even difficult issues. In recent months, we have reached agreements in the areas of beef and citrus imports and public works issues. Patience and cooperation were critical to the successful resolution of these issues. In turn, our success in dealing with these problems sets the tone for future discussions.

TRADE IMBALANCE

Of course, when we speak of Japan-U.S. bilateral relations, the trade imbalance issue is sure to arise. Here is another example of the perception gap I mentioned earlier. Discussions of the trade imbalance issue too often tend to portray it as a strictly bilateral problem between the U.S. and Japan. This unfortunately obscures the true nature of the issue. The trade imbalance above all is a macroeconomic phenomenon, not a bilateral one. Allow me to quote from a 1987 report by the U. S. General Accounting Office:

"Changes in the macroeconomic policies of the United States led to the increase in the U. S. trade deficit. The strong dollar accounted for between 50 per cent and 60 per cent of the increase in the U. S. trade deficit since 1980, the relatively strong U. S. economy for between 15 per cent and 20 per cent, the Latin American debt problem for between 10 per cent and 20 per cent, and other factors for about 5 per cent."

This report goes on to note that the U. S. deficit cannot be attributed to trade barriers. IF we want to rectify the trade imbalance situation, we must recognize that it is a complex and macro-level problem. We need solutions designed for the long-term, not the "quick-fix". Our experience shows that multilateral, cooperative action is the most effective approach. For example, the 1985 agreement on currency exchange rates among the five great monetary powers is beginning to pay dividends today. As a result, the U. S. dollar was depreciated considerably in relation to other currencies, thus increasing the competitiveness of U. S. exports.

Japan's future prosperity depends on the stability of the international economic system. It is therefore in Japan's best interests to support efforts to reduce existing imbalances which could someday threaten that system. With this in mind, Japan has been taking serious measures to achieve a more harmonious global economy.

JAPAN'S EFFORTS

At home, Japan is making strenuous efforts to further open its domestic markets. These efforts reflect the discussions of the GATT during the current Uruguay Round. Japan's average tariff rate on industrial products is among the lowest in the world, and after the completion of the tariffs reduction in accordance with the GATT Tokyo Round Agreement of 1987, it is 3 per cent, considerably lower than that of either the United States or the EC. Japan's ratio of tariff revenue to total import value (tariff burden) is among the lowest. Japan is working to further lower its tariff rates, which on average, are already lower than those in both the EC and the United States.

We are also making efforts to remove non-tariff barriers. This includes de-regulation and streamlining certification procedures, product standards, and the distribution system. These measures are one part of the overall change taking place in Japanese trade with the rest of the world. They are designed to further improve the access of foreign firms to the Japanese market.

Here let me quote Ambassador Mansfield's remarks: "The Japanese market is far more open than Americans think it is even if it is not as open as the Japanese would make it out to be".

On the other side of the coin is Japan's shift away from an ecomony led by export-oriented growth to one fueled by domestic demand. This process is well under way. "Export drive" is something in the past. Today, Japan's domestic demand element is higher than that of the other major industrial nations, including the United States. The domestic element is the principal contributor to Japan's GNP growth. In 1987, Japan's domestic demand component was 5.0 per cent, compared with 2.5 per cent for the U. S.

Much of the growth in domestic demand stems from Japanese budgetary policy. The fiscal year 1988 budget for public works measures increased by 20 per cent over that of fiscal year 1987. These measures are a key component in stimulating domestic demand.

The restructuring of Japanese budgetary policy is matched in the private sector. There are fundamental transformations taking place in the Japanese economy. The shift from export-led growth to domestic demand-led growth has led to a changing business climate in Japan. Japanese industry must respond to stiff competition it now faces from abroad. Japanese consumers, as well, are faced with new choices and have shown great appetite for well-made imports.

Improvement is evident in the external trade situation. Japanese exports are beginning to level off. In volume terms, our world exports declined nearly two percent last year. In yen terms, the drop was nearly six per cent. On the other hand, imports have been rising. In terms of the dollar, imports climbed by 18 per cent last year alone.

Our efforts in the domestic sphere have been supplemented by efforts in the international sphere. As Japan has assumed a leading role in the global economy, it has sought to assume the responsibilities which are commensurate with this new position.

Japan has taken dramatic steps to help developing countries in their nation-building process.

Official Development Assistance (ODA), meaning economic cooperation or aid, is a key part of this effort. Japan's contributions in this field have been rising rapidly in recent years. It reached $7.5 billion in 1987. In fiscal year 1988, Japan's ODA budget rose to more than $10 billion, surpassing the U. S. budget for economic aid.

In keeping with the spirit of the "International Cooperation Initiative" announced by Prime Minister Takeshita, Japan's contribution to the international community will expand even further in the coming years. Official Development Assistance is scheduled to double in the next five years to a total of $50 billion.

Japan will also be seeking to improve the content of its assistance. A comprehensive program of debt relief measures has recently been established. In the past ten years, Japan has extended approximately $5 billion in loans to 17 least-developed countries. Under this program, these countries will be relieved of all their future debt-servicing of the loans. In other words, we will write-off these loans. We are fully committed to improving both the quantity and the quality of Japan's Overseas Development Assistance.

I would like to turn now to the existing security ties which bind our two nations together. Japan has pledged its willingness to further share the defense burden. Already, Japan contributes about $2.5 billion annually to help defray the cost of maintaining U. S. military forces in Japan. This represents an outlay of more than $45,000 per U. S. service personnel in Japan.

Furthermore, new agreements have just gone into effect which increase Japan's share of the salary expenses of civilians locally employed by U. S. forces in Japan. Collaboration is also under way in the area of joint training, planning and technology exchange.

These, then represent some of the things Japan has been doing on its part to respond to the challenge of the trade imbalance. Despite these efforts, we had to wait a long time before the tide began to turn.

U. S. EFFORTS

Although late in coming, there are positive and encouraging developments in the trade imbalance scene. U. S. exports have been on the rise. This is the key to turning the imbalance around. However, there are some who do not look at it this way. Protectionist measures focus almost exclusively on imports, while ignoring the other side of the equation. These measures seek to reduce the U. S. trade imbalance by shrinking trade, namely, by keeping out imports.

A more positive and realistic approach would focus on the export side of the equation. Certainly, there is room for further marketing efforts overseas on the part of the U. S. By expanding trade through greater exports, the U. S. could not only improve its own standing in the world economy, but also avoid the conflict inherent in trade contraction.

ISSUES

With this said, I would like to move now to some of the specific issues currently facing the Japan-U. S. relationship.

First, the issues of beef and citrus imports and the public works were thorns in the side of Japan-U. S. economic relations for many years. But, as I mentioned earlier, thanks to energetic efforts by the negotiators of both governments, agreements were reached in March and April of this year on these three subjects. These problems have been resolved amicably. But the implementation of the agreements by Japan will bring dramatic restructuring to the specific Japanese Industries involved, and will, doubtless, entail a great deal of painful sacrifice on their part. In other words, the agreements have come at a significant cost to the Japanese, a cost we are willing to bear to maintain harmonious relations.

May I say in passing that Japan is the largest buyer in the world of U. S. agricultural products, buying a far greater share of total U. S. agricultural exports than any other country. Japan's dependence on U. S. farm exports is high. Japan is an important market for U. S. beef, citrus, corn, soy beans, wheat and grain sorghum.

The second issue concerns the recently passed Omnibus Trade Act. A number of Japanese officials have termed the bill "deplorable". Some EC countries have also expressed their apprehensions. The act represents to many Japanese a step backward during a time when great progress had been made in cooperation. We can only hope that the implementation of this act more protectionist aspects will be carried out with great prudence in a manner not disruptive of international trade.

Finally, there is some discussion of the evaluation of the relative positions of the United States and Japan on the world stage today. Some say that the U. S. supremacy has eroded. For us, the issue is clear-cut. We disagree with those who say the U. S. has declined in its international stature. Japan firmly believes that the U. S. leadership stands unquestioned in the free world and that the U. S. will continue to exercise its role of global leadership for years to come. We welcome this leadership, and look forward with great optimism to marching hand in hand into the future as responsible partner and reliable ally of this country.

GERMAN—U.S. ECONOMIC RELATIONS: PRESENT AND FUTURE

An Address by Dr. Manfred Emmes, Consul of the Federal Republic of Germany

It is a great pleasure and honor for me to be a participant of this seminar at Midwestern State University and to have the opportunity to address you here today.

First, I would like to begin with an overview of the economic trends and developments of German-American relations. Since West Germany is also a member of the European Community (EC), an economic view of this country has necessarily to take into consideration the European context and the ongoing project of a single European market. Therefore, I will outline the concept of achieving a European single market by 1992 and its impact on the United States.

The German economy must be analyzed as part of the global and interdependent world economy. Until last winter, the question of the German contribution to reduce the worldwide economic imbalance was very controversial.

Our American friends had problems understanding that a domestic economy which is as strongly oriented as ours could not be shifted to spectacular increase in domestic demand within a short period of time. With 30 percent of our GNP due to exports while at the same time experiencing a drop in population growth together with other environmental constraints, the German economy faced many unusual problems. As a result very unpleasant "campaigns" were started accusing us as being stubborn and rigid both "inside the beltway" and among allies. Both we and our American partner learned from this unpleasant experience. Furthermore, our figures improved considerably in the meantime.

After all, during the first quarter of 1988, the German economy actually grew by 4.2 percent, as measured by the GNP. After 1.7 percent growth in 1987, we expect an actual growth for 1988 of between 1.0 percent and 2.5 percent. This happened because of an increased domestic demand. In the first quarter private consumption surpassed last year by a tangible 4.6 percent.

Investments in assets also grew by 3 percent. The inflation rate is a little in excess of 1 percent. The one negative is a high unemployment rate of 8.9 percent.

Part of the explanation for the high unemployment is to be found in the ongoing weakness in many of Germany's traditional industries such as steel, coal, construction, textiles, and shipbuilding. These industries lost around 640,000 jobs between 1977 and 1987. To be sure, more than 1.8 million positions were created in other areas of the economy--primarily in the high-technology and services industries--but these were insufficient to compensate for a flood of new job seekers from the high birth-rate years of the 1960s and 1970s and the entry of more women into the employment market. This, says the Institute for German Economy (IWS) in Cologne, accounts for the net increase of 1,200,000 in employment between 1977 and 1987.

According to the Institute's analysts, the construction industry in that ten-year period was the big loser (-177,000 jobs), due largely to a decline in residential construction which the IW attributed to high interest rates and large state and municipal deficits. In addition, the IW counts 119,000 jobs lost in steel, 98,000 in textiles, and 92,000 in the garment industry.

The Institute also points to a sharp contraction in job creation in the "north-south axis." In southern Bavaria, for example, during the decade under study 1,200 new positions were created for every 100 lost; in northern Bavaria the corresponding ratio was 440 to 100. In North Rhine-Westphalia, on the other hand, only 120 new jobs were created for every 100 lost. The disparity, in the IW's opinion, is accounted for by the predominance of medium-sized companies in Bavaria and Baden-Wuerttemberg as well as greater government incentives to entrepreneurs and innovative new businesses.

The surplus of our trade balance and our balance of goods and services not only decreased in real terms, but also nominally. The trade balance surplus fell by 22 percent in February 1988, by 15 percent in March. As compared to last year, the surplus of the balance of goods and services fell by 24 percent in February 1988 and 45 percent in March. Without overemphasizing the monthly figures, the trend is clear. For the third consecutive year our volume of imports grew twice as fast as our exports. Therefore, GNP growth rate was reduced by about 1 percent each year. In spite of this fact, we compare favorably with our American friends if we compare our growth in real terms on a per-capita-basis (1984-86: U.S.A 2.6 percent, Germany 2.3 percent). That the German economy is capable of contributing in this way to reduce world-wide imbalances is due in part to a painful re-appreciation of the Deutsche mark against the U.S. dollar of around 100 percent within two and a half years.

The federal government of Germany also adopted a tax reform program between 1986-1990, which will mean real savings on 45 billion marks, which equates to 2.5 percent of GNP. Furthermore, the government decided on measures to promote investments, as well as transfers to private ownership and deregulation. Last but not least, the purchasing power of Germans increased considerably, thanks to the scorned policy of stability of the Bundesbank and the consequently low inflation rate.

The afore mentioned developments of the German economy are at least in some areas useful, especially to the U.S. economy. In 1987, our exports to the U.S. decreased in real terms by about 7 percent (our automobile exports even more, by 16 percent), whereas U.S. exports to Germany increased by 14 percent. This year a further decline of our exports by more than 10 percent is expected with about the same increase last year in our imports from the U.S. At the same time, the number of Germans visiting the U.S in 1987 increased by 40 percent. This year 1.1 to 1.2 million Germans will come here to visit and they will pay in hard currency.

The surplus in our balance of goods and services of altogether 40 billion marks over the U.S. probably will be 10 billion dollars less in 1988. The U.S. share of our export may well fall under 9 percent (1986 = 10.5 percent) and it is quite possible that the U.S. will lose their place as second biggest importer of German products to Great Britain or the Netherlands.

A favorable development is the direct investments by Germans in the U.S. The U.S. remains the most important country for German investment. About 40 percent of all our direct investments in foreign countries are in the U.S. (First Quarter 1987 = 2.8 billion DM, First Quarter 1986 = 1.7 billion DM) whereas U.S. investments in Germany in the first quarter of 1987 only amounted to 0.4 billion DM. Quite to the contrary, 1.1 billion DM were pulled out of Germany, i.e. three times as many American participations were liquidated than new ones were founded.

Let me add right away that a trade and current account imbalance between two countries such as the United States and Germany is nothing to complain of in a multilateral trading and payments system as we have it in the western world. Bilateral deficits and surpluses reflect the wealth-creating international division of labor. Let me say also that a country like Germany has to earn a trade surplus of a certain magnitude. Our tourists, for instance, spend a lot of money abroad, not the least in the U.S. Last year their spending in the U.S. went up by a record 28 percent. Furthermore, we are the main financial contributor to the European Community. Finally, I believe that a wealthy country like Germany with a high savings ratio should export capital to developing countries. This can only be done if we earn a current account surplus, as we have done in most years in the past without causing undue harm to others.

The reduction of our external surpluses is of course desirable as a contribution to a better balanced pattern of external accounts among the industrial and developing countries. But at the same time, it has unavoidably been a dampening factor for growth in Germany, given that approximately one third of our GNP is due to exports of goods and services. Germany after all is the largest exporter of manufactured products, exceeding the U.S. and Japan. So it is not surprising that overall growth slowed down as export growth was affected by the decline in the dollar exchange rate vis-a-vis the deutsche mark. Nevertheless, Germany's performance compares reasonably well with that of other countries.

Overall, German-American trade relations run smoothly. Nevertheless, there exist some trouble spots. One of those continues to be the cooperation within COCOM to prevent the illegal export of technology important to the military to Eastern European countries. Yet, the U.S. industries' interest in better export possibilities in order to reduce the U.S. trade deficit contributed to a "middle of the road" arrangement between the U.S. and the other COCOM partners. A better organized COCOM can put "higher fences" around fewer items.

In the meantime a certain easing of tension has taken place in the area of telecommunications. Under pressure from Congress, the U.S. demanded that the German telecommunication market be opened to ATT. Although the U.S. is clearly ahead of us in trading telecommunication goods and although subsidiaries of big U.S. companies like IBM and ITT have production plants in Denmark, they ask that the German postal monoply mitigate.

For years to come, the main source of conflict in the trade relations between the European Common Market and the U.S. will be agricultural trade.

The conflict concerns the future organization of agricultural production worldwide and the trade of agricultural products within the framework of the Uruguay-Round. This calls for the adoption of measures for short-term and long-term reform of agricultural policies; while at the same time, it concerns a constantly changing list of specific agricultural issues. To keep these under control, the negotiators on both sides are put under more and more strain. The U.S. demands that the common market together with Japan abolish all subsidies for agricultural products by the year 2000. The U.S. accuses the common market of unwillingness to significantly reduce those subsidies, while the common market describes the zero option of the U.S. as unrealistic. The CM asks also the U. S. to show a willingness to reduce step by step their surplus production and subsidies. In the past years the dairy cattle population in the common market was reduced by 20 percent, milk production by 11.5 percent. The price of grain within the common market fell by 26 percent since 1984. In February of this year the European Council fixed grain production in the common market at 160 million tons. These restrictions will lead to automatic and cumulative price reductions of 3 percent annually over the next 4 years; fines will also be levied against farmers who exceed their quotas. Politically these were painful and courageous first steps. They are belittled as "marginal" by some of our American friends. They continue to ask for the abolishment of all agricultural subsidies between now and the year 2000, while at the same time increasing their own, for instance under the export enhancement program. Nevertheless, there are indications that after November 1988 a more realistic attitude will emerge, allowing us to move gradually towards an agricultural support system "decoupled" from production and thus less likely to lead to overproduction and disturbances in the world markets.

Last but not least, let me mention the German-American relation to traffic. German-American air traffic is booming; in 1987 an increase of 30 percent was recorded over 1986 for commercial airlines; a similar increase in cargo was noted, especially from west to east. After Great Britain and Japan, Germany is the third largest partner of the U.S. in intercontinental air traffic. Lufthansa has the rights for 13 places in the U.S. including Anchorage and San Juan. Six U.S. carriers have direct flights to Germany from 32 places in the U.S., i.e. twice as many weekly flights than Lufthansa. Government talks are scheduled for next year. We hope for more rights and therefore better terms of competition for Lufthansa. The very successful inclusion of Washington, D. C. in Lufthansa's flight schedule, encourages us in our endeavor.

Allow me to refer now to the concept of a European single market by 1992. Why is the EC so important for West Germany?

Already today, more than half of German exports go to our EC neighbors and about 20 percent of all German jobs depend on exports within the European community. The creation of the large single market of 320 million consumers can give a strong additional boost not only to our economy but also to the world economy.

What is the concept of a Europe without borders by 1992? Here are answers to some questions. The ongoing process of completing the single European community market entails the elaboration and adoption of a vast legislative program. This is a complex and lengthy process, and it is not possible at this stage to give definitive answers to many of the questions on the matter. Many of the replies are, of necessity, provisional and reflect the current situation and thinking in the community.

What is the "1992 program"? The 1992 program aims to sweep away the remaining obstacles to the free movement of people, goods, services and capital within the EC. The concept of a large single market, unhampered by national divisions, is not new--it was envisioned by the six European countries that launched the process of European unification in 1951. That process was clearly a political endeavor, but the means chosen were economic. Much progress toward economic integration has been achieved, but a number of difficult barriers remain between the now twelve EC member states. Concerned about economic and technological stagnation in the Community and to give a new impetus to European integration, European leaders in 1985 launched a major drive to create a true common market by the end of 1992.

By 1992, businessmen should be able to trade and invest in a single market of more than 320 million people as easily as they can do it here in the United States. It will mean structural changes in industry and banking and financial services. This will have a similar effect to the opening of the American West more than 100 years ago. By this process Europe will be able to play a larger and even more constructive role in international economic cooperation.

How will the program be accomplished? The E. C. Commission, the community's executive body, in a 1985 "white paper" outlined almost 300 pieces of legislation to remove physical, technical and fiscal barriers between member states. They would, for example, scrap time-consuming border controls, prevent differences between technical regulations from hindering intra-Community trade, and bring national value-added and excise tax systems closer together. All of these proposals must be approved by the Council of Ministers, which is composed of representatives of the twelve E. C. member states. Upon adoption, they become law that applies throughout the Community, enforced by the E. C. Court of Justice.

What are the benefits of a single market?

First of all, it brings the Community one step nearer its ultimate goal of unification, thus consolidating the economic and political stability of Europe. More immediately, the removal of internal trade barriers will give a significant boost to the E. C. economy. The 1992 program will create a huge, unified market of 320 million consumers, with goods, services and capital moving across state borders, as in the United States.

This will reduce costly red tape and allow business to produce for an E. C. wide market, without having to adapt to a variety of national technical standards or health and safety regulations. Manufacturers will be able to achieve economies of scale, and the business environment will become more conpetitive as sectors such as air transport and financial services are liberalized and government purchases are opened up in new sector to suppliers throughout the Community.

A recent study sponsored by the Commission to evaluate the economic benefits of the 1992 program projected that the creation of a unified market would add about 5 percent to the Community's Gross Domestic Product. In the medium term, the study found, the program would also add as many as 2 million new jobs and keep average consumer prices 6 percent lower than in a divided market.

The 1992 program will also help technological development, with companies operating on a community-wide market better able to afford the necessary research and development.

On a more personal level, E. C. citizens will have the right to live or work in any member state without the restrictions that now affect certain professions. It will be easier for them to find work because university diplomas, apprenticeship courses and vocational training acquired in their home country will be recognized throughout the Community. Furthermore, they will be able to travel to other E. C. countries without facing police checks and other formalities at national borders.

What hardships will be created by the 1992 program?

Since the single market will lead to a more competitive environment for existing companies, they will have to adjust their activities to this new environment. Certain sectors will face more important changes than others because of liberalization: transport, telecommunications and banking are examples.

Less developed regions or those suffering industrial decline will need some economic and social assistance to soften the impact of the changes and to assist in making the needed adjustments. The community aims to reduce disparities between the various regions: this is why the E. C. Heads of State or Government decided in February 1988 to strengthen structural funds to ensure the necessary economic and social cohesion of the community.

What benefits will the 1992 program have for the United States and U. S. businesses?

A strong European economy contributes to a healthy world economic and trading system. The United States stands to gain because of the close E. C.- U. S. political and economic partnership.

U. S. - E. C. trade amounted to about $146 billion in 1987, and the community is the U. S.'s biggest export market. U. S. investment in Europe ($126.7 billion in 1986) will benefit from a strong European economy, as will E. C. investment in the United States ($157.7 billion).

U. S. businesses are well placed to exploit the benefits of a unified market. First of all, their subsidiaries incorporated in the Community will profit from the removal of barriers to the same extent as purely European companies. American companies are already used to operating in both a global and a large domestic marketplace, so may have less trouble adapting to the new environment than indigenous companies.

U. S. exporters will find themselves selling into a single market with a generally uniform set of norms, standards, and testing and certification procedures. They will no longer have to face 12 different sets of requirements or intra-community border controls. In cases where the E. C. has not yet adopted standards, it looks to standards already established by the International Standards Organization (ISO) for guidance.

Of course, the increased competitiveness of European industry could affect the market share of third-country firms both within the community and abroad. But U. S. companies are highly competitive in the global marketplace, and are in a good position to seize the opportunities of the European single market. In fact, many people in the Community are afraid that the main beneficiaries of the internal market could well prove to be the Japanese and American companies operating in Europe.

How will the 1992 program promote external trade?

In overall terms, completion of the single market will stimulate the world economy as the Community's greater competitiveness leads to faster growth and a rise in imports, coupled with the commercial benefits brought about by the existence of a single market.

The community has eliminated all internal tariffs and has a common external tariff system. Its average weighted tariff on industrial goods is 4.5 percent, about the same as that of the United States, and among the lowest within GATT. The E. C. has played a leading role in the GATT, and is actively participating in the current Uruguay Round of GATT negotiations aimed at liberalizing trade and "rolling back" protectionist trade barriers.

The community has developed a common trade policy, with regulations covering such areas as dumping (closely following the GATT dumping code), a system of trade preferences for developing countries and customs rules for goods entering the community.

The remaining national quantitative restrictions will have to be removed as part of the creation of a single market or as a result of the extension of the common trade policy. The community has begun the process of rolling back by offering in the Uruguay Round to drop national import quotas on a range of goods. This process will continue as the round progresses.

The community has and will continue to maintain a liberal trading policy. Accounting for 20 percent of world trade (compared with 14 percent for the United States) and with about 10 percent of its GDP dependent on exports to third countries (compared with about 5 percent for the United States), it has more interest than any of its trading partners in maintaining the "one world" trading system.

How will trade in services be opened up?

Although services account for a major share of world trade, they are subject to little, if any, international regulation. In fact, multilateral negotiations on the subject are under way within the framework of the Uruguay Round.

The general approach in the Europe of 1992 will be that service providers such as banks or insurance companies that are approved in one member state will be allowed to operate under similar conditions throughout the community.

In the banking sector a recent E. C. commission proposal calls for reciprocal access for newcomers to the community market. As far as established firms are concerned, consideration is being given to what the position should be once the single market is completed, in particular in regulated sectors such as banking. As yet no decisions have been taken.

The E. C. is perfectly willing to open up its services sector provided its major trading partners are prepared to do likewise. Accordingly, the E. C. attaches great importance to the work of the relevant negotiating group in the Uruguay Round, which it hopes wil lead to the opening of markets in this sector. Clearly, in this context the E. C. cannot deprive itself of negotiating leverage by making unilateral concessions in this sphere.

Will U. S. companies be able to compete for government purchases and contracts?

The creation of a single market will fully open up public-sector markets, which heavily favor national suppliers, to suppliers throughout the community. The 1992 program envisions that the rules that already exist will be better enforced, and that procurement will be opened up in areas not now covered such as water, transport, energy and telecommunications. European subsidiaries of American companies will have the same access to government purchases and contracts as any E. C. company.

How can interested parties in the U. S. make their views on prospective new E. C. legislation known to the community authorities?

The E. C.'s decision-making machinery is very transparent, probably one of the most transparent in the world. Commission proposals to the Council are published in the Official Journal and there is ample time for any interested party to comment on these proposals before they are adopted by the Council, a process which on average takes 18 to 24 months.

In addition, the commission in many instances announces its plans, in the form of communications to the Council, even before a formal proposal is made. The Green Paper on copyright published in June 1988 is such an example.

The openness of the decision-making process makes it easy for interested parties to follow and gives them the opportunity to make their views known. The U. S. is particularly well placed in this respect since, in addition to a large and effective U. S. Mission to the E. C., the private sector is well represented through the U. S. Chamber of Commerce in Brussels.

Will the 1992 program create a new monetary system and common currency?

No, but that's a complementary goal. The community in 1979 established the European Monetary System (EMS) in an effort to minimize the erratic currency fluctuations that had impeded trade and discouraged European firms from undertaking major investment projects. It is based on a system of fixed but adjustable exchange rates, resting on a variety of intervention and credit mechanisms.

This system has been technically improved over the years. European leaders in the coming months are going to discuss the possibility of further improvements. The basic assumption is the EMS will evolve to encompass a European central bank managing a common reserve system. This would mean the creation of a common currency. No date has been set at this time for achieving this goal.

Will this all really take place in 1992?

So far, the Commission has presented more than two thirds of the proposals outlined in its 1985 "white paper" and the Council of Ministers has adopted more than one third of all the proposals. By the end of 1988, the Commission will have presented 90 percent of its proposals to the Council, thus giving economic operators and policymakers a virtually complete picture of the envisaged program.

Treaty reforms approve by E. C. member states to streamline decision-making took effect in mid-1987, increasing the chances for meeting the 1992 target. These reforms, encompassed in the Single European Act, allow the Council to make decisions by majority vote in many cases that formerly required unanimity. However, unanimity is still required for the approximation of tax rates on products and services (VAT and excise duties).

But even if work remains to be done as 1993 approaches, the process of building a single market has achieved a momentum that cannot be reversed. In fact, the business community is becoming increasingly aware of the new reality and groups and firms are positioning themselves to take full advantage of the opening up of the market.

Ladies and Gentlemen, allow me to make some final remarks about Germany which has benefited so much from free world trade, and therefore has a prime interest in the preservation of a free trading system and in keeping protectionist tendencies all over the world at bay. Unfortunately, we have not always lived up to our own ideals, if I look for instance at the agricultural policy and actions taken in some other areas in the EC context. The fight against protectionism is vital for the world economy and not least for dealing with the problems of the highly indebted developing countries. Markets are parachutes-they only function when open. In Europe we have embarked on an important effort at creating a common internal market by 1992. This will also benefit third countries, industrial and developing, if it succeeds in eliminating barriers that do still exist, and if it actually produces the benefits which can be expected of it. This is not an exercise that is intended to be at the expense of those outside the European Community.

Efforts to reduce supply-side rigidities that are hampering economic growth are apparently still inadequate, not only in my country. We in Germany are very conscious of the need for further action in this regard. We have to pursue fiscal, economic, labor market and other policies which promote rather than impede structural change.

Free movement of capital is as important as free movement of goods and services. By capital I do not only mean bank credits and bonds but also of course, direct investment. Germany has a tradition of 30 years of open capital markets and this has contributed very much to our economic achievements. Foreign companies which have invested in Germany, among them many U. S. companies, are contributing to the German standard of living. They are also major contributors to German exports. If one includes the U. S. export figures the export share of U. S. companies in Germany, like Ford, Opel, Philip Morris, Hewlett-Packard, to name only a few, the picture of American export strength would be even brighter than it already is. Germany's biggest computer manufacturer for example-bigger than Nixdorf or Siemens in this respect is IBM with more than 30,000 employees.

What will the future look like?

In the nineties the U. S. will remain the strongest economic power of the world. In our emerging multipolar world, however, the preponderance of the U. S. will no longer be as evident as in the post-World War II-period and, consequently, the U. S. will have to cooperate more closely with Japan, with the European Community, with Canada, the newly industrialized countries and, depending on the result of the ongoing reforms in these countries, with China and the USSR.

There is a lot of talk about "burden-sharing". The perception of the partners of the U. S. enjoying some kind of "free ride" is one-sided. It often neglects the specific U. S. interests involved and at the same time underrates the contributions of the partners. It is also worth contemplating that as a logical consequence the notion of increased "burden sharing" will mean an increase in the sharing of responsibilities, of power and influence with these partners.

The future external position of a unified Europe will, however, not only be determined by the Europeans themselves but also be influenced by the attitude of its major trading partners, including the U. S. Let us join hands in order to make the multilateral free trading system of GATT as well as the single European market and the North American market of the nineties sources of strength for the global economy!

Thank you for your kind attention!

TEXAS ENTREPRENEURS RATE THEMSELVES ON BUSINESS SKILLS

Dr. Bob Wooten, Professor of Management, Lamar University
Dr. Charles McCullough, Professor of Marketing, Midwestern State University

INTRODUCTION

The small business firm, along with the ever present entrepreneurial spirit has been termed the cornerstone of the American economic system. A few of these small firms eventually become large institutions, some merely survive, but during a five year time period most fail or go out of business. The largest percent of these failures occur during the first year of operation (DeCarlo and Lyons, 1980). Typically, the failures are attributed to a lack of business knowledge by the small business owners. This lack of business knowledge normally can be overcome by education through such options as business courses and business seminars that are open to the public. Another more serious factor to be considered in the assessment of a person's business talents is his or her entrepreneurial skills. Many studies have been performed by psychologists and sociologists to determine which traits distinguish successful business people and entrepreneurs from those less successful.

Most notable are McClelland's studies of the need for personal achievement. McClelland studied the achievement motive for child-rearing practices which stress standards of excellence, self-reliance training, maternal warmth and low father dominance. The studies also indicate that successful entrepreneurs score high on those tests designed to measure a person's need for independence, power, internal control and other similar traits (Mescon and others, 1981).

It would be helpful to have a test that could measure a person's business skills as well as his personality traits for business. Such a test would provide an indication of an individual's likelihood of success in the business world. Unfortunately such tests suffer from two problems.

First, many such tests require a trained psychologist to interpret the responses, resulting in high costs for administering the tests. An example of this kind of test is the Thematic Apperception Test (TAT). The TAT is a projective technique in which the subject is shown pictures of persons and asked to make up a story about each (Megginson, 1977).

Second, it is questionable whether a person can compensate for the lack of entrepreneurial traits by changing his personality in the same manner that he can compensate for his lack of business knowledge by studying business texts. Certainly, many people have made their livelihoods by trying to teach others to do so, as proved by the many books on such subjects as aggressive behavior, dressing for success, etc.

Because of these problems a study was undertaken to develop a practical method of evaluating potentially small business owners. Small business owners already operating in the State of Texas were contacted and asked to provide valuable information about their entrepreneurial skills and how they were acquired. This information could be used in evaluating and counseling potentially new business owners.

RESEARCH PROJECT

In order to gain an understanding of what small business owners have done to overcome entrepreneurial deficiencies, a four part questionnaire was designed and mailed to over 900 small business entrepreneurs in the State of Texas (Texas Small Business Directory, 1985). Approximately fifty-four percent, or 493 responses were received and included in the study.

Part I of the questionnaire concerned the entrepreneur's business background. Part II consisted of three managerial questions. In question one respondents were asked to indicate what they thought were their current skill levels involving eighteen business-related functions and to describe how these skills were acquired. In question two they were asked if certain business advisors were helpful to them in developing these managerial skills. Question three addressed business activities in which small business owners might engage for self-improvement.

Part III included questions which helped in classifying the kinds of businesses represented in the study. Part IV of the questionnaire centered around questions addressing demographic information of respondents. In the final part of the questionnaire respondents were asked if they would have taken a business skills test before going into business for themselves. They were also asked for their opinion concerning the value of such a test.

Of the 493 responses 339 came from businesses legally classified as corporations, 122 came from sole proprietorships and 32 came from partnerships. Over fifty percent of the business owners indicated they alone started the business while thirty-one percent started the business with a partner. The remaining seventeen percent acquired an existing business.

Fifty-six percent of the responses came from first-time entrepreneurs. The remaining forty-four percent came from businessmen who had previously started other businesses.

Approximately thirty percent of the business owners had either a baccalaureate and/or master's degree in Business Administration. Of the remaining seventy percent most had taken some college business courses and/or business seminars before going into business for themselves. Four indicated they earned a degree in Business Administration after going into business.

Fifty-five percent of the entrepreneurs indicated that they acquired their technical knowledge of the industry by working for another similar company before going into business for themselves. Others indicated they acquired their technical knowledge through either talking with people in business and/or reading books or articles about a particular industry.

FINDINGS

Self-Rating and Methods of Learning Business Skills

This part of the questionnaire required the small business owner to rate his or her own competency involving eighteen business-related functions. In addition they were to describe how these skills were acquired.

The rating scale for the different business functions are:

TABLE I

Self-Rating of Competency on Business-Related Functions

Business Functions	Self-Rating
Hiring competent employees	2.00
Dealing with bankers	1.86
Managing your time	2.31
Delegating authority	2.04
Selling your ideas to others	1.65
Solving employee problems	1.71
Solving technical problems	1.82
Dealing with regulations or "red tape"	2.31
Setting goals for the company	2.14
Motivating your employees	2.00
Managing financial matters	2.00
Getting and keeping customers	1.48
Getting and keeping suppliers	1.37
Finding good sources of business advice	2.33
Planning ahead	2.17
Developing new products or services	2.26
Keeping the firm profitable	1.96
Understanding tax laws	2.89

1-Very competent: rarely have difficulty.
2-Fairly competent: usually can perform function well.
3-Average: sometimes experience difficulty.
4-Need improvement: do not feel comfortable performing this function.
5-Have not yet developed (or do not use) this skill.

Table I includes averages of the self-rating scores for the eighteen business functions. Table II shows a ranking of these competency scores for each business function.

TABLE II

Ranking of Self-Rating Competency Scores on Business-Related Functions

Rank	Business Functions
1	Getting/keeping suppliers
2	Getting/keeping customers
3	Selling ideas to others
4	Solving employees' problems
5	Solving technical problems
6	Dealing with bankers
7	Keeping the firm profitable
8/9/10	Hiring competent employees
8/9/10	Motivating employees
8/9/10	Managing financial matters
11	Delegating authority
12	Setting goals for the company
13	Planning ahead
14	Developing new products or service
15/16	Managing time
15/16	Dealing with regulations or "red tape"
17	Finding sources of business advice
18	Understanding tax laws

The self-ratings in Table I and the rankings reflected in Table II focus upon an interesting trend. Those functions in which the respondents rated themselves highest such as getting and keeping suppliers or dealing with bankers generally are the day-to-day functions of a business owner. One might expect that given a relatively short period of time, a businessman would develop a certain level of compentency in those areas regardless of his formal business background.

It was not surprising that "selling ideas to others" was ranked third highest on the list. Small business owners usually have an enthusiastic belief in their ideas or products and will generally describe them to anyone who will listen. This is a particularly handy trait when the time comes to convince a banker or venture captialist of the financial worthiness of an endeavor.

In the middle of the rankings are those functions in which the respondents judged their performance to be fairly competent. These include keeping the firm profitable, hiring and motivating employees, managing financial matters and delegating authority.

It should be noted that these functions are characteristic of those required to make the transition from a small company to a larger one. As the owner of a growing firm finds he has more tasks to accomplish, he will have to delegate some of his authority to subordinates. This will give the owner more time to concentrate on ways to keep the firm profitable. Because it is difficult for many small business owners to let go of the day-to-day operations, it is not unusual to find that business owners rate themselves lower on these functions.

The lower third of the rankings show the functions which business owners felt the least competent performing, though the respondents still ranked themselves above average in these skills. These functions--setting goals for the company, planning ahead, developing new products and services, managing time and finding sources of advice--require a great deal of discipline from the business owner.

The first two, setting goals and planning ahead, force the business owner to take a detached objective look at his firm. This is very difficult for someone who has a large personal and/or financial stake in the company. While a company that is fighting for survival might not need long-term goals, those firms that have established themselves as viable competitors need objectives in order to continue growing.

Managing time may well be the business owner's toughest challenge. Without objectives or goals, a business owner may spend all of his time doing menial work. This does not allow him to see the really big opportunities that present themselves.

Planning ahead forces a business owner to look at the big picture for the company. By doing this the owner is more likely to perceive opportunities for making a profit.

One surprising result from the analysis was the difficulty entrepreneurs had in finding sources of business advice. However, entrepreneurs in general have their own ideas about how things should be done. Thus, before seeking advice, the entrepreneur would need to admit his own deficiencies. Perhaps it is this stumbling block, rather than a lack of local advisors, which causes problems.

It was not suprising to find that developing new products or services was difficult for managers. Most small firms devote most of their resources toward manufacturing and delivering products as quickly as possible. Little time is devoted to organizing a company in such way as to develop new products or services. This requires knowledge of strategic market and product development which many small business owners are lacking.

In addition to knowledge of strategic product development, the company must have the resources to devote to market research, prototype testing and the managerial time needed to develop and nurture the ideas. This goes hand-in-hand with the functions of time management and planning ahead that also were rated among the functions about which managers were least secure.

The function that was undeniably rated as the most difficult was understanding tax laws. Tax incentives for businesses are so important that it behooves a business owner to have at least a rudimentary understanding of available options. This is one area where a well-designed seminar could enhance the skill of a small business owner.

Some business owners reported using their "own hard work" to develop the skill of understanding tax laws. Most reported relying on an expert, presumably a C.P.A., for acquiring an understanding of tax laws.

Table III shows the methods by which business owners acquired their skill for each business function. The corresponding codes at the top of the table are described as follows:

1-Attended a college business course
2-Attended a business seminar on the subject
3-Read a book or article on the subject
4-Received advice from Small Business Administration or local business organization
5-Consulted an expert
6-One's own hard work
7-Have not yet developed (or do not use) this skill
8-Not answered

In analyzing Table III it is clear that business owners acquired most of these business skills through their own hard work.

In those business areas where business owners felt least competent, many chose to attend business seminars and/or consulted with experts in order to secure additional information. This is especially true for:

1. Setting goals for the company
2. Planning ahead
3. Learning to manage time
4. Dealing with regulations or red tape
5. Finding good sources of business advice
6. Understanding tax laws

Activities Helpful to the Small Business Owner

As seen in Table IV attending business seminars proved to be the most popular and helpful activity among small business owners. Seminars are popular for two main reasons:

First, seminars usually address a specific problem or business area. Therefore, the business owner can select the one or two seminars he really needs from the many that are available.

Second, seminars comsume relatively little time, with most of them lasting one or two hours. This contrasts with college business courses, which can consume several hours a week for months. Usually, a business owner cannot afford this time away from the day-to-day demands of his business.

TABLE III

Methods of Acquiring Business Skills
(Percentages)

	Methods of Acquiring Skills								
Business Functions	1	2	3	4	5	6	7	8	Total
Hiring competent employees	3.4	7.4	6.2	.6	3.2	61.6	7.4	10.2	100.0
Dealing with bankers	3.2	4.0	5.9	4.7	10.6	55.0	6.4	10.2	100.0
Managing your time	2.3	11.9	14.0	1.3	1.9	51.2	7.4	10.0	100.0
Delegating authority	5.5	9.3	11.9	1.0	2.1	52.6	7.2	10.4	100.0
Selling your ideas to others	4.0	11.3	6.6	1.1	.6	63.5	2.5	10.4	100.0
Solving employee problems	3.4	8.1	7.6	1.1	3.2	56.4	7.4	12.8	100.0
Solving technical problems	8.7	3.8	5.7	.6	15.5	51.0	4.0	10.6	100.0
Dealing with regulations or "red tape"	2.3	5.5	6.8	3.4	19.7	41.7	8.3	12.3	100.0
Setting goals for the company	5.9	13.4	9.3	1.3	3.8	49.7	5.1	11.5	100.0
Motivating your employees	4.0	12.7	11.8	.8	1.6	48.8	6.7	13.6	100.0
Managing financial matters	12.1	7.9	7.2	1.9	14.9	43.7	1.9	10.4	100.0
Getting and keeping customers	1.9	6.2	3.4	1.5	1.9	73.4	1.1	10.6	100.0
Getting and keeping suppliers	1.9	2.5	1.5	1.3	2.5	73.3	3.0	14.0	100.0
Finding good sources of business advice	1.5	7.6	6.2	6.6	16.3	39.7	8.3	13.8	100.0
Planning ahead	5.3	11.3	5.7	1.7	4.4	52.4	5.1	13.0	100.0
Developing new products or services	1.1	5.1	5.3	.9	7.2	51.8	12.7	15.9	100.0
Keeping the firm profitable	3.2	6.2	2.5	1.7	8.1	64.3	3.0	11.0	100.0
Understanding tax laws	5.9	4.9	8.9	1.3	38.8	17.2	11.5	11.5	100.0

The second most often cited method for sharpening business skills was becoming active in community affairs. Even though active community involvement is time consuming it enables participants to sharpen their leadership abilities and to make valuable business contacts.

Business owners were somewhat mixed in their feelings about the helpfulness of joining local business organizations. It was ranked third out of the four selected activities. Attending college business courses was ranked last with an average score of 2.72. Most business owners indicated that they had no basis for ranking the activity which meant that they had not attended such courses. Of the respondents who did attend these courses many rated them very helpful.

TABLE IV

Activities Helpful to the Small Business Owner

Activities	Score	Rank
Attending business seminars	2.17	1
Attending college business courses	2.72	4
Becoming active in community affairs	2.24	2
Joining local business organizations	2.41	3

Advisors Helpful to the Small Business Owner

The profession of the advisor provides some insight into the kinds of problems in which business owners need help. As seen in Table V the three most helpful advisors are bankers, C.P.A.'s, and lawyers.

These rankings were not suprising since bankers and lawyers are indispensible in setting up a company. Certified Public Accountants are also needed by most business owners to design and maintain a good accounting system.

The fourth most helpful advisor is a family member. This is due largely to the support and sacrifice made by immediate family members in establishing a business. Small business owners often find that family members provide a different perspective from that of the owner in viewing business problems.

Advertising specialists and management consultants were the least used advisors. Most respondents indicated they had no basis for ranking these advisors. This kind of response is probably due to the fact that management consultants and advertising specialists work mainly with medium and large size businesses.

TABLE V

Advisors Helpful to the Small Business Owner

Advisors	Score	Rank
Certified Public Accountant	1.59	2
Lawyer	1.72	3
Banker	1.41	1
Partner	3.03	6
Advertising Specialist	2.85	5
Management Consultant	3.32	7
Family Members	2.10	4

The low ranking of partners as advisors is suspect because of the few number of partnerships reported in the study. Most respondents indicated they had no basis for ranking this advisor.

Opinions Regarding Business Skills Test

Small business owners were somewhat divided about the value of a business skills test. Approximately two-thirds of the business owners would have taken a business skills test if it had been made available to them before going into business. The remaining one-third of the owners had a very negative attitude toward the test. They did not believe the test would provide the answers to what it takes to make a successful business.

The general comments centered around the belief that commitment to the success of a business, long hours, and hard work cannot be designed into any business skills test. Everyday entrepreneurs fight the odds for success and some win even though they did not initially have the required skills for developing and managing a successful business.

CONCLUSIONS

The typical entrepreneur believes he is "fairly competent" in performing most business functions. The one obvious exception is understanding tax laws. For this function thirty-eight percent consult experts.

Attending business seminars and active involvement in community affairs appear to be most helpful to business owners. The seminar usually addresses a specific problem and consumes relatively little time when contrasted to college business courses. Community involvement also enables the business owner to make valuable business contact while at the same time making use of some of his leadership talents.

The small business owner relies heavily on the expertise and advice of his banker, certified public accountant and lawyer in helping establish and developing his business. It is in these speciality areas that most business owners feel least competent and need the most help.

Even though other business help is often available through many channels, business owners are generally reluctant to seek this help. They rely heavily upon their own innate abilities, initiative, and hard work in making a success of their business.

A business skills test may be helpful to some potential business owners, but others would probably not take the test even if it were made available to them. Approximately one-third of the business owners in the study responded negatively toward taking such a test and gave reasons that are highly characteristic of entrepreneurs.

Statistics concerning small business failures confirm the fact that most entrepreneurs need help in acquiring managerial skills that are necessary in order to survive in the market place. The first two to three years are the most critical for a new entrepreneur. The adjustments one must make during this time from being an employee to being an entrepreneur are shocking to say the least for most people. The entrepreneur is first confronted with "red tape" and what it means. He then begins following proper procedures, completing and filing necessary forms, seeking legal and financial help, and finally accepting responsibility for running the new business.

To help make this an effective transition for new entrepreneurs colleges of business need to continue expanding their scope to include working with small business owners through the Small Business Administration. By forming Small Business Development Centers and Small Business Institutes, short courses and seminars can be designed to specifically serve the needs of entrepreneurs. If the seminars are to be effective they must be precisely focused and scheduled at convenient times for attendance by entrepreneurs. At the completion of each seminar, those in attendance should know how, when, and where to secure additional information and help concerning the subject of the seminar.

This research revealed two universal ingredients common to entrepreneurial success. The first ingredient is the unrelinquished motivation entrepreneurs have to succeed. The second ingredient is the tenacity to continue even in the light of unfavorable odds.

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AMERICAN TRUSTS

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A new type of investment is now trading which allows investors to trade either the speculative or conservative components (or both) of a blue chip stock. The conservative component is designed for individuals who primarily seek current income and capital appreciation while the speculative component serves the needs of those who desire capital growth.[1]

This new investment vehicle is the American Trust. The Trust is created when shares of stock are surrendered to The Americus Shareowner Service Corporation, the sponsor of these trusts. The trusts are created with a five-year life and allow trading in several ways. Americus does for stocks what "coupon-strippers" do for bonds,[2] i.e., the stock's income component and capital appreciation component trade separately. The units of the trust are (may be) split into two components:[3]

PRIMES (Prescribed Right to Income and Maximum Equity)
SCORES (Special Claim on Residual Equity)

The Primes are the current value components and are vested with dividends, voting rights and other attributes associated with current value.

The Scores are the future value component and contain only the potential for capital appreciation of the future value of the underlying stock. The trust units or their separate pieces (Primes, Scores) trade on the American Stock Exchange. They are reported daily in the financial pages:

	Div	Yld	Close
A-mo un	4.45	4.6	96 3/8
A-mo	4.45	5.7	78 1/2
A-mo sc	. . .	. . .	19 5/8

This shows the Americus Trust for Phillip Morris (MO); the "un" is the Unit Trust Certificate; the "sc" is the Score and the A-mo is the Prime.

On the same trading day the NYSE shows:

	Div	Yld	Close
Phil Mr	4.50	4.7	96 1/2

Note: the sponsor keeps $ .05 of the dividend.

The trust certificate (unit) is perforated so that it can be torn in half (literally) to create two independend securities--the Prime and the Score.[4]

Holding the A-mo Prime, the owner gets the Phillip Morris dividend (less $ .05, as noted), voting rights and a claim on the potential appreciation up to $110 per share (see: S & P Stock Guide for termination claim.) Any appreciation above $110 belongs to the Score. So, the Score behaves like a long term call option or a warrant. If Phillip Morris common stock is trading above $110 at termination of the trust, the Score gets everything above $110. If Phillip Morris is below $110, the Score expires worthless.

An investor who buys the Phillip Morris Prime, can increase the dividend yield from 4.6 percent to 5.7 percent and can enjoy capital appreciation up to $110 per share, after which the holder of the Score will get all the remainder of any appreciation in price.

INVESTOR STRATEGIES

There are two major classifications of Americus Trust Investors: Conservative investors who desire a higher yield while at the same time they can reduce their risk exposure; and, the aggressive investor who seeks increased leverage and a decreased tax liability.[5] A third type of investor would be owners of the stock who tender their shares in exchange for the Units.

CONSERVATIVE STRATEGY

A conservative strategy may be pursued by first converting shares of stock of a participating company into Units of Trust--if the Trust is still open and accepting shares. Then the Score components of the Units could be sold. The proceeds from this sale could either be pocketed or reinvested in more Prime components of the same company. Instead of buying more Primes, another alternative would be to invest the proceeds in a low-risk investment such as treasury bills/notes. This procedure would enhance the dividend yield. In the case of Phillip Morris (quoted previously) the dividend yield would increase from 4.7 percent on the stock to 5.7 per cent on the Prime. The remaining $1,962.50 per round lot difference between purchase price of the share and purchase price of the Prime could be earning at least the risk free rate of return. For an investor who does not have stock to surrender to an Americus Trust, the increased dividend yield can be achieved by simply buying the Primes instead of the stock.

In the case where an investor is concerned about a short-term market reversal for the stock being considered, the conservative strategy (invest in Prime) will have less risk exposure. In essence, the less money the investor has at risk, the less money he/she stands to lose. To further lessen the risk, the market price of the Prime is likely to be less volatile than the underlying stock because of its income characteristics--unless the common stock dividend is reduced or discontinued.

AGGRESSIVE STRATEGIES

Increased leverage is desired by the aggressive investor, especially when price appreciation is expected. To acquire more leverage, the Score component of the stock is acquired. If the investor owns the stock, the shares can be converted into Units of Trust after which the investor sell the Primes and uses the money to invest in Scores.

For example if an investor owns 100 shares of Phillip Morris, he/she will convert into 100 units. The Primes will be sold for $7,860 and 400 additional Scores will be purchased. This is equivalent, then, to 500 shares on which appreciation above $110 will accrue to the investor.

If the investor does not own Phillip Morris, the Scores can be purchased. The Scores behave like warrants. At termination of the trust, the investor gets any appreciation above $110 a share. If Phillip Morris is below $110 the Scores expire worthless just like any "out-of-the-money" option.

A possible tax liability is another advantage in investing in Scores. The tax basis of the Score component is usually 40 per cent of the combined Prime and Score prices at the time of the sale--not the time of purchase.[6] When there is capital appreciation, this higher tax basis translates into a lower tax liability for the Score. But, check with a tax advisor for any changes in the law.

Scores have a higher risk level than the underlying shares of stock. Since the Score functions similarly to a call option, it loses value as the price of the underlying stock decreases--especially as it gets more and more "out-of-the-money". However, because of volatile price movements of the Scores in response to price changes of the underlying stock, an investor may have the potential price changes of a pure stock portfolio, but with a much smaller investment exposure.

SUMMARY

The Americus Trust Units, Primes, and Scores, despite their new terminology, are really ordinary securities which can be understood in terms of conventional investment theory. Because of the length of the option term, they present opportunities not available with other securities. The individual investor can use them to implement risk adjustment strategies, to insure portfolios, to replicate other securities, or to take a position in an underlying stock which is represented by the option features of the instruments. Once investors get comfortable with the basics of Trust mechanics, the Americus Trust should become a heavily traded vehicle.

NOTES

1. Lisco, John. "Splitting Shares: Using the Americus Trust to Boost Blue Chip Returns". **Barron's,** Mar. 14, 1988, p. 72-74.
2. Laderman, Jeff. "Primes and Scores can Soup Up Your Portfolio". **Business Week,** Aug. 31, 1987, p. 86.
3. Jackson, Debra A., "Stock Splitters". Registered Representative, Issue 116, March 1988, p. 44-52.
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5. Marton, Andrew. "Here Come the Americus Trusts". **Institu tional Investor,** May 1987, p. 151-152.
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EFFECTS OF MONETARY ACTS OF 1980'S ON SAVINGS AND LOAN ASSOCIATIONS IN THE UNITED STATES AND TEXAS

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INTRODUCTION

"Like sand castles on an ocean beach, the restrictions imposed on depository institutions in the Depression and again in the post-World War II era were doomed to be washed away by tides of economic change."[1] "However, once government agencies have gained regulatory authority, they have been notably reluctant to relinquish it."[2]

The above two quotes--each is supportable yet mutually contradictory--do stand indicative of attitudes about banking and other financial intermediaries and their relation to governmental regulations.

Among the financial intermediaries of the U.S. in the last three decades, commercial banks and savings and loan associations have been first and second in ranking as to size of total assets. Each has undergone sizable changes due to public policy shifts that have occurred. Especially within the 1980's have federal government policies angled towards a lessening of government restrictions imposed on financial institutions.

Changes in government policies have contributed to the scene of continual shifting occurring in ownership structure, product offerings, and successes/failures among banks and s&ls. The early 1980's have included two deregulatory maneuvers so meaningful as to cause legislators and authors to refer to them as the most significant legislation about banking passed by Congress in the last fifty years.

First on the scene was the Depository Institutions Deregulation and Monetary Control Act, passed in 1980. Two years later the Garn-St. Germain Depository Institutions Act was passed. It was expected to be a stimulus to home lending and thereby a boom for construction industry.

This study has sought to discern impacts which these famous legislative acts have had upon banks and s&ls in the U.S and in Texas. Purposes for the study are:

1) Determine if the relative positions of banks to s&ls was affected by the landmark legislation of early 1980's. Since s&ls historically have been specialized as home lenders and banks have been like financial department store, a guiding hypothesis to be tested was that s&ls through product diversification have been able to increase their relative position to banks due to that legislation.

2) Compare banks and s&ls in Texas with those in the U.S. to see if changes in Texas have been more sizable. Newscopies have portrayed turbulent times for the financial intermediaries in Texas.[3] Therefore a hypothesis is that the two monetary acts of 1980 and 1982 have yielded a more pronounced impact on banks and s&ls in Texas than for the nation as a whole.

CHANGING ROLES AFTER DEREGULATION

Prior to the 1980's banks were the only institution that offered accounts to depositors that were available upon demand. With that characteristic, demand deposits could be used for checking; hence, they functioned as money. Other types of deposit accounts lacked that money aspect; nor could other financial intermediaries offer demand accounts. When banks made loans by increasing the demand deposit accounts of their borrowing customers, the money supply of the nation was increased. Other institutions could not change the nation's money stock by making loans. That uniqueness enjoyed by banks was ended by the legislation of the 1980's as other intermediaries were allowed to offer checkable accounts for their customers.

Savings and Loans Associations have been in operation for over a hundred and fifty years in the U.S. They first began in 1831.[4] Theirs was the speciality of mortgage lenders for the construction industry--especially for financing home purchases. Government regulation limited the variety within their portfolios. That mandated specialized role ended with legislation of the 1980's. Variety of product lines has become common place among s&ls. They offer various checkable accounts, commercial and consumer loans, trust services, and others which leave little, if any, difference in the views of consumers between banks and s&ls.

If deregulation can claim to be beneficial for the public and for the businesses being regulated, there is wonder about the reason for having the regulation imposed in the first place. Gart reiterated three reasonings for it: a) It is a means to assure honesty and soundness of banks; thereby it provides a more stable economy. b) It serves the banking interests to protect them from competitive forces. c) It enhances revenue generating capabilities for public finance purposes.[5] Another point is to acknowledge the public's feeling that government should ensure against financial monopoly power and its hurtful influence on individuals and communities that is felt could be exerted.

Numerous and complex features were included in the 1980 and 1982 acts. Full coverage of those features cannot be treated herein, but some points are included in order to show the flavor of the changes and to indicate that a distinction between banks and s&ls has been further blurred in the 1980's.[6]

a) All banks and thrifts face the same reserve requirement ratio on their transaction accounts in accordance with size category of those accounts.

b) All depository institutions can offer NOW accounts.

c) Thrifts can have borrowing and deposit customers that involve much the same product lines as do those for banks.

d) National banks were allowed larger loans per customer and fewer restrictions were imposed on their making real estate loans.

e) Interest rate ceilings on deposit accounts were eliminated by 1986.

f) Federal Reserve services were made available to all depository institutions.

g) Interest rate ceilings imposed by states on mortgage loans were eliminated unless they are reinstated after a time by the states.

Notwithstanding the famous "legislative duo", sizable amounts of regulation upon banks and s&ls remain. There are restrictions against full interstate banking, expanding product lines into nonbanking areas like insurance underwriting, real estate brokering, and retailing physical goods. Also left in place are the rules of operation, chartering inspection and auditing designed to protect depositors, borrowers, and the overall economy. It can be presumed that changes in the regulatory arena over banks and s&ls will continue to be made whether as banes or blessings to the businesses and/or the public in general. Attention for this study focused on the above mentioned two legislative acts because of the degree of change they permitted and because of the interest there is as to how the relative positions of the two largest depository financial intermediaries may have been affected.

RELATIVE POSITION OF BANKS TO S&LS IN U.S.

Observations made in the financial community would confirm that banks are by far the more numerous financial intermediaries in the U.S as compared with savings and loan associations. Data in Table 1 showed on the average during 1976-86 that banks were over three times more numerous--14,406 to 4,097. But the number of firms in each group has diminished somewhat during that decade. By far the larger decline occurred among s&ls. They fell from comprising 25 percent of the total for both groups in 1976 to about 18 percent in 1986.

The data affirm that the two legislative acts have not stimulated an increase to the numbers of existing banks or s&ls in the nation. Using the same criterion, it seems clear that the legislation has not favored s&ls at the expense of banks.

Both groups were able to accomplish remarkably large amounts of growth in size if not in numbers during the decade after 1976. Annual increases in assets for banks averaged 9.6 percent, as shown in Table 1. The decade provided for more than doubling of their assets and an increase of over $100 million per bank for the 1976-86 period.

In similar fashion were the s&ls showing gains in asset holdings. Data in Table 1 show average increases in assets of 9.5 percent annually. Assets rose nearly 2.5 times from 1976 to 1986. Growth in assets per s&l averaged 14.5 percent each year compared to that of 9.7 percent for banks. That increase in asset size per s&l relative to that for banks would have been expected since assets rose and number of firms declined. The degree of concentration--fewer and larger sized firms--has increased for s&ls relative to banks.

It is significant that the portion of assets held by each group relative to the total for both groups remained largely unchanged during that time period. (See the percent of assets shown by subscript (a) for each group in Table 1) Banks averaged 75 percent; s&ls averaged 25 percent with a range from lowest to highest of only two percentage points for the decade. No big shifts were observed in that comparison that could have been due to the two legislative acts. A trend favoring one or the other group of intermediaries in this regard was not discernible.

Legislations of 1980 and 1982 did not exhibit a measurable benefit for one of the intermediaries over the other. It is true that there was a relatively larger decline in the number of s&l firms than was the case for banks, but in other measurements their relative positions remained nearly the same prior to as they were after the acts were passed. So the hypothesis that the legislation gave s&ls greater opportunity to expand products offerings and to become more bank like which would have allowed them to gain relative positions with banks was not supported by these findings. Banks and s&ls remained in similar relative positions to each other over the time period covered.

A lingering point is that s&ls have kept about the same relative share of total assets for both groups even though their specialty area, mortgage loans for construction, has not been healthy in many sectors of the nation in recent years. Merit is due the argument that the opportunities for more diversified portfolios provided for by legislative acts made it possible for s&ls to not lose their relative position with banks in a fashion that would have occurred if the deregulatory laws had not taken place.

Overall these results speak well for the legislation. They indicate that the good effects expected from the acts such as greater consumer choice, more competition among intermediaries, and less government regulation which interprets into less cost along

TABLE 1

STATISTICAL COMPARISON OF BANKS AND SAVINGS & LOAN ASSOCIATIONS IN U. S., 1976-86

Year	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Average	Min	Max
U. S. Insured Commercial Banks														
No. firms	14,411	14,412	14,391	14,364	14,434	14,414	14,452	14,465	14,481	14,405	14,236	14,406	14,236	14,481
Pct (a)	74.9	75.2	75.3	74.7	75.8	77.1	79.1	80.5	81	81.8	82.2	78.0	74.7	82.2
Pct change (b)		0.0	-0.1	-0.2	0.5	-0.1	0.3	0.1	0.1	-0.5	-1.2	-0.1	-1.2	0.5
Assets (c)	1,182	1,339	1,508	1,692	1,856	2,029	2,194	2,342	2,509	2,731	2,940	2,029	1,182	2,940
Pct (a)	75.1	74.5	74.2	74.5	74.7	75.3	75.6	75.2	73.5	74.2	75.3	74.7	73.5	75.6
Pct change (b)		13.3	12.6	12.2	9.7	9.3	8.1	6.7	7.1	8.9	7.7	9.6	6.7	13.3
Asst/bk (d)	82,048	92,936	104,809	117,801	128,565	140,773	151,834	161,915	173,234	189,587	206,519	140,911	82,048	206,519
Pct change (b)		13.3	12.8	12.4	9.1	9.5	7.9	6.6	7.0	9.4	8.9	9.7	6.6	13.3
U. S. Savings and Loan Associations														
No. firms	4,821	4,761	4,725	4,864	4,613	4,292	3,825	3,502	3,393	3,197	3,078	4,097	3,078	4,864
Pct (a)	25.1	24.8	24.7	25.3	24.2	22.9	20.9	19.5	19	18.2	17.8	22	17.8	25.3
Pct change (b)		-1.2	-0.8	2.9	-5.2	-7.0	-10.9	-8.4	-3.1	-5.8	-3.7	-4.3	-10.9	2.9
Assets (c)	392	459	524	579	630	664	708	773	904	949	963	686	392	963
Pct (a)	24.9	25.5	25.8	25.5	25.3	24.7	24.4	24.8	26.5	25.8	24.7	25.3	24.4	26.5
Pct change (b)		17.2	14.0	10.6	8.8	5.5	6.5	9.3	16.8	5.0	1.5	9.5	1.5	17.2
Asst/s & l (d)	81,290	96,450	110,815	119,038	136,527	154,753	184,993	220,845	266,284	296,778	312,963	180,067	81,290	312,963
Pct change (b)		18.6	14.9	7.4	14.7	13.3	19.5	19.4	20.6	11.5	5.5	14.5	5.5	20.6
U. S. Total for Banks and Savings & Loans														
No. firms	19,232	19,173	19,116	19,228	19,047	18,706	18,277	17,967	17,874	17,602	17,314	18,503	17,314	19,232
Pct change (b)		-0.3	-0.3	0.6	-0.9	-1.8	-2.3	-1.7	-0.5	-1.5	-1.6	-1.0	-2.3	0.6
Assets (c)	1,574	1,799	2,032	2,271	2,486	2,693	2,902	3,116	3,412	3,680	3,903	2,715	1,574	3,903
Pct change (b)		14.25	12.97	11.77	9.44	8.36	7.75	7.36	9.52	7.85	6.07	9.5	6.1	14.2
Asst/bk + s & l	81,858	93,809	106,293	118,114	130,493	143,981	158,773	173,401	190,897	209,056	225,442	148,374	81,858	225,442
Pct change (b)		14.60	13.31	11.12	10.48	10.34	10.27	9.21	10.09	9.51	7.84	10.7	7.8	14.6

Explanations: (a) Percent was determined by dividing the number-whether it be banks, s & l's or assets by the total of that number for banks plus s & l's.
(b) Percent change was found by measuring annual change in units or assets and dividing that remainder by the earlier year's figure.
(c) Data are in billions of dollars.
(d) Data are in thousands of dollars.

Source: Statistical Abstract of the United States, editions for years 1977-1987.

with less interference into business affairs could be accomplished without impacting upon one group more severely than the other.

RELATIVE POSITION OF BANKS TO S&LS IN TEXAS

An effort was made to see how the relation of banks to s&ls in Texas compared to that for the U.S. economy It was suspected that the Texas institutions may have been affected by the banking legislation of 1980 and 1982 in larger measure than was found to be true for the nation. There has been a relatively heavier concentration of s&ls in Texas; also, the degree of instability in the financial sector presumably has been much greater in Texas than for the nation.

The number of banks in Texas increased each year from 1976 through 1986. (See Table 2) That increase averaged 3.8 percent per year. By comparison s&ls in the state did not fare so well. Their numbers generally decreased from 318 in 1976 to 281 in 1986, an annual average change of -1.4 percent.

The 1980's have not been favorable for new s&l firms as compared with banks in Texas. In 1976 banks made up 81 percent of all banks and s&l firms. By 1986 their ratio had risen to 87.5 percent.

Though bank numbers increased sizably as compared with the s&l measurement, the reason for that shift is expected to be because of the unit banking rule in Texas that prevailed at the time. Since state law had prohibited branch banking, there was motivation for expansion plans to include newly chartered units of operation; whereas s&ls could accomodate expansion by branching and adding to offices to serve more customers without having to charter new units. Data for 1987 show there had been a decrease of 87 Texas banks from the previous year. Changes in the state's banking legislation allowing for branch banking probably accounted for some of that decline.

Realizing that the economy in Texas has been plagued by the downturn in the petroleum industry and its related businesses during the 1980's, it is surprising to find that banks and s&ls were able to experience rapid growth in their asset holdings. Rate of increase in assets for banks averaged 12.3 percent; and for s&ls was 15 percent. Total assets for the aggregate of the two groups increased approximately 2.6 times--about the same as the national average of 2.4.

The greater part of that increase among the Texas firms was accounted for by the boost that occurred to the s&ls. Their increase in asset holdings was nearly 5 fold from 1976 to 1986; whereas banks' asset increases were about 3 times. S&ls increased their relative position with banks from 24 to nearly 33 percent by 1986.

How much of that shift in relative position was due to the legislation of 1980 and 1982 is the big question to be answered. The analysis as performed has yielded rather inconclusive results:

a) Bank numbers increased; whereas s&l numbers decreased.

b) Both institutions registered increases in value of asset holdings; although s&ls occurred in 1983 and again in 1985. (Unfortunately data on s&ls for 1984 weren't available from the same source as was used elsewhere in the comparison; therefore that year was left blank rather than using incompatible data)

S&ls in Texas may have accomplished greater asset growth than banks due to their taking advantage of the

TABLE 2

STATISTICAL COMPARISON OF BANKS AND SAVINGS AND LOAN ASSOCIATIONS IN TEXAS, 1976-86

Year	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Average	Min	Max
Insured Commercial Banks in Texas														
No. firms	1,357	1,377	1,395	1,427	1,472	1,529	1,598	1,680	1,789	1,907	1,962	1,590	1,357	1,962
Pct (a)	81.0	80.7	81.3	82.1	82.1	83.0	84.6	85.9	(e)	87.5	87.5	83.6	80.7	87.5
Pct change (b)		1.5	1.3	2.3	3.2	3.9	4.5	5.1	6.5	7.6	2.9	3.8	1.3	6.6
Assets (c)	63,381	71,760	82,477	95,603	110,762	133,896	152,838	172,130	187,986	198,948	199,900	133,607	63,381	199,900
Pct (a)	76	74.7	74.7	75.3	75.9	77.7	78.3	75.3	(e)	68.4	67.3	74.4	67.3	78.3
Pct change (b)		13.2	14.9	15.9	15.9	20.9	14.1	12.6	9.2	5.8	0.5	12.3	0.5	20.9
Asset/bnk	46,707	52,113	59,123	66,996	75,246	87,571	95,643	102,458	105,079	104,325	101,886	81,559	46,707	105,079
Pct change (b)		11.6	13.5	13.3	12.3	16.4	9.2	7.1	2.6	-0.7	-2.3	8.3	-2.3	16.4
Savings and Loan Associations in Texas														
No. firms	318	330	320	312	320	313	290	275	(e)	273	281	303	273	330
Pct (a)	19.0	19.3	18.7	17.9	17.9	17.0	15.4	14.1	(e)	12.5	12.5	16.4	12.5	19.3
Pct change (b)		3.8	-3.0	-2.5	2.6	-2.2	-7.3	-5.2	(e)	(e)	2.9	-1.4	-7.3	3.8
Assets (c)	19,999	24,271	27,996	31,351	35,088	38,518	42,312	56,454	(e)	91,789	97,278	46,506	19,999	97,278
Pct (a)	24.0	25.3	25.3	24.7	24.1	22.3	21.7	24.7	(e)	31.6	32.7	25.6	21.7	32.7
Pct change (b)		21.4	15.3	12.0	11.9	9.8	9.8	33.4	(e)	(e)	6.0	15.0	6.0	33.4
Asst/s & l (d)	62,890	73,548	87,488	100,484	109,650	123,061	145,903	205,287	(e)	336,223	346,185	159,072	62,890	346,185
Pct change (b)		16.9	19.0	14.9	9.1	12.2	18.6	40.7	(e)	(e)	3.0	16.8	3.0	40.7
Texas Total for Banks and Savings & Loans														
No. firms	1,675	1,707	1,715	1,739	1,792	1,842	1,888	1,955	(e)	2,180	2,243	1,874	1,675	2,243
Pct change (b)		1.9	0.5	1.4	3.0	2.8	2.5	3.5	(e)	(e)	2.9	2.3	0.5	3.5
Assets (c)	83,380	96,031	110,473	126,954	145,850	172,414	195,150	228,584	(e)	290,737	297,178	174,675	83,380	297,178
Pct change (b)		15.2	15.0	14.9	14.9	18.2	13.2	17.1	(e)	(e)	2.2	13.8	2.2	18.2
Asst/bk = s & l	49,779	56,257	64,416	73,004	81,390	93,602	103,363	116,923	(e)	133,366	132,491	90,459	49,779	133,366
Pct change (b)		13.0	14.5	13.3	11.5	15.0	10.4	13.1	(e)	(e)	-0.7	11.3	-0.7	15.0

Explanations: (a) Percent was determined by dividing the number--whether it be banks, savings & loans, or assets--by the total of that number for banks plus savings & loans.
(b) Percent change was found by measuring annual change in units or assets and dividing that remainder by the earlier year's figure.
(c) Data are in millions of dollars.
(d) Data are in thousands of dollars.
(e) Data were not available from same source as used elsewhere. Data from alternative sources were not sufficiently compatible to be useful. That weakness caused many cells to be blank.

Source: Statistical Abstract of the United States, editions for years 1977-1987. Federal Deposit Insurance Corporation, Data Book: Operating Banks and Branches, Vol. 16, Texas, Annual publications. This source was used to get the number of insured banks in Texas for years 1983-1986.

greater freedoms allowed them by the acts of deregulation. It isn't clear why this outcome for Texas is dissimilar to the pattern for the U.S., but the hypothesis advanced earlier that the findings in Texas would be different than for the U.S. could not be disproven by the analysis of these data.

BANKS AND S&LS IN TEXAS VS. BANKS AND S&LS IN THE U.S.

Indications show that banks and s&ls are smaller in size and are more numerous in Texas relative to the rest of the country. (See Tables 3 and 4) For the period 1976-86, Texas averaged 11 and 7.4 percent of all banks and s&ls in the nation. Yet the state had only 16.6 and 6.8 percent of the bank and s&l assets respectively. Also different in Texas were the increases in numbers of banks and of s&ls that occurred during the 1976-86 period. While numbers rose in Texas, they fell for the nation.

TABLE 3

BANKS AND SAVINGS & LOANS IN TEXAS COMPARED TO BANKS AND SAVINGS AND LOANS IN THE U. S., 1976-86[a]

	Average Percent	Range Percent
Banks in Texas		
No. of firms	11.0	9.5 - 13.5
Assets	7.2	5.4 - 6.8
Savings & Loans in Texas		
No. of firms	23.0	8.9 - 6.8
Assets	11.8	5.1 - 10.1
Banks plus Savings & Loans in Texas		
No. of firms	10.1	9.6 - 11.6
Assets	6.4	5.3 - 7.6

[a]Data show the percent Texas is to the U. S. measurement for each set and averaged or ranged for the time period.
Source: Data were taken from above tables.

Many factors would help to explain that phenomenon. The enormity of the geography including hundreds of cities would attract great numbers of financial institutions. The large population of the state--it is the third most populace state--would encourage establishment of financial intermediaries. The building trade did well in Texas through most of those years. Construction of new privately owned housing units started in the state exceeded that of any other state in 1981-84.[8] And, in the case of banks as mentioned previously, there has been opposition to branch banking in the state that continued as legal prohibition by state law through the time span of this study. That would have promulgated smaller sized banks than would be the case for branch banking operations as found through most of the nation.

Observations about data in Table 4 find banks and s&ls are undersized in Texas compared relative to the nation's average. Texas averaged asset sizes of $82 million and $159 million for banks and s&ls compared with $141 million and $180 million for those respective institutions in the U.S. The two Texas intermediaries accumulated a faster asset growth rate that was measured for the national average. This response was due to the smaller size of the Texas firms and thereby they have smaller base for use in the denominator.

Observers logically may doubt that the last half of the 1980's will show growth rates for the banks and s&ls in Texas to exceed those for the nation. Because of the downturn of the Texas economy relative to national performance, banks and s&ls in the state have experienced troubled times in late 1980.s Texas has been labeled as leading the nation in bank failures and s&l troubles.[9] But the growth rates or changes in same do not show evidence of having been affected in a major way by legislation of 1980 and 1982.

TABLE 4

TEN YEAR GROWTH RATES OF BANKS AND SAVINGS & LOANS IN TEXAS WITH COMPARISONS WITH THOSE OF THE U. S., 1976-86

	Average	Minimum	Maximum
Texas Banks:			
Assets/Bank (Thous. Dols.)	81,559	46,707	105,079
Growth rate (Pct. per Yr.)	8.3	-2.3	16.4
Texas Savings & Loans:			
Assets/S & L (Thous. Dols.)	159,072	62,890	346,185
Growth rate (Pct. per Yr.)	16.8	3.0	40.7
U. S. Banks:			
Assets/Bank (Thous. Dols.)	140,911	82,048	206,519
Growth rate (Pct. per Yr.)	9.7	6.6	13.3
U. S. Savings & Loans:			
Assets/S & L (Thous. Dols.)	180,067	81,290	312,963
Growth rate (Pct. per Yr.)	14.5	5.55	20.6

Source: Derived from tables above.

SUMMARY AND CONCLUSIONS

This study tested the impact of recent legislation on banks and savings and loan associations in the U.S. and in Texas. The legislative acts, DIDMCA of 1980 and Garn-St. Germain Act of 1982, have been ranked as the most significant banking legislation in fifty years and were expected to increase competitiveness for the benefit of consumers of financial services.

Because of legislation provided for greater opportunities for diversification in portfolios of s&ls than had been previously allowed, it was hypothesized that s&ls would have gained in a relative position to commercial banks. Evidence analyzed over the 1976-86 time period shows that s&ls did gain in total asset and in assets per firm, but so did the gains occur for banks to the same degree. Also, those increases were shown to occur about the same extent before and after the legislation was passed. Hence, the analysis indicated no major impact on banks and s&ls that would have caused a change in their relative well being to each other. Apparently the legal opportunity to be more like banks hasn't allowed s&ls to gain in assets or numbers relative to banks.

The same analysis was performed about banks and s&ls in Texas. Because Texas was presumed to have experienced more turbulence among its financial institutions than for the nation as a whole, it was conjectured that the impact of the 1980 and 1982 legislative acts would be more noticeable in Texas.

The data for Texas showed bank numbers increased and s&ls decreased during the 1976-86 time span. Growth rate in asset holdings was higher for s&ls than for banks. Therefore there was a difference in the shifts in Texas as compared with the shifts for the nation. The data don't demonstrate an impartial impact on banks and s&ls in Texas of the two legislative changes.

Study results indicate that the much heralded legislative acts of 1980 and 1982 did not bring major changes in the relative positions of banks and s&ls in the nation, but a different view occurred in Texas. The expected benefits from the acts could be realized without causing reason for complaints about partiality from one or the other of these major financial intermediaries is more evident for the nation than it is for Texas.

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