

Published once in June and July, twice in May and Aug., 3 times in Jan., Feb., Sept., Oct., Nov., and Dec., 4 times in April, and 5 times in March by the University of Nebraska-Lincoln, Dept. of Publications Services & Control, 209 Nebraska Hall, Lincoln, NE 68588. Second-class postage paid Lincoln, Nebraska.

Prepared by the Bureau of Business Research
College of Business Administration

SHOULD TAXES BE USED TO CONTROL INFLATION?

Between the second quarter of 1979 and the second quarter of 1980, hourly compensation in American manufacturing rose at annual rates of 7.8, 8.8, 10.5, and 14.7 percent. Productivity fell during three of the four quarters. Can the short-run inflation rate be reduced under these circumstances?

For an increasing number of economists the answer is yes, if we adopt some form of tax-based incomes policy (TIP), that is, use the tax system to implement pay guidelines.

The guideline would be the long-term nationwide increase in productivity plus some adjustment for the current rate of inflation. If inflation is 10 percent and long-term productivity gains 2 percent, the pay guideline might be 7 percent. The pay guideline would be reduced over a period of three to four years as consumer prices followed pay settlements downward. Pay is defined as the wages, salary, and private fringe benefits for all employees—production, clerical, managerial, and executive.

Adherence to the pay guidelines might be achieved in a number of ways.¹ Sidney Weintraub and Henry Wallich have proposed that a penalty rate of tax be levied on the net income of any corporation (subject to the program) whose average annual pay increase for all employees exceeds the stipulated guidelines. The penalty tax rate could be progressive, rising sharply for severe violations. It is proposed that the normal corporate income tax rate be lowered sufficiently to offset any taxes collected under the program. Since high productivity industries could afford to ignore the wage guideline, this form of TIP is largely an attempt to strengthen business resistance to pay increases in low-productivity industries.

Arthur Okun has argued for a reward in the form of a tax credit for employees of firms whose average annual pay increase for all employees is in accordance with the guideline. Qualifying workers would obtain a tax reduction equal to a specified percent of their wages and salary up to some maximum income level. Employees of firms in violation of the guideline would be denied the tax credit. This form of TIP requires a general subsidy from government to low-productivity industries.

Mancur Olson has suggested a combined tax/subsidy TIP with the funds collected from firms granting wage increases above the guidelines going to firms who keep their pay increases at or below the guidelines. It is proposed that a progressive structure of subsidy/tax payments be tied to departures from the guidelines. No net increase in taxation is expected under this program. This

form of TIP amounts to a subsidy from high-productivity industries to low-productivity industries if, as it seems likely, high-productivity industries generally ignore the wage guidelines.

Wage increases would presumably moderate under each of these programs because firms would act to protect their profits. This they may do either by enrolling their employees in the tax credit program or stubbornly resisting unusually large wage demands under a tax penalty or tax/subsidy program. It is believed that the slowdown in wages will be translated into a slowdown in prices, after a short lag. This belief rests on the macrostatistical observation that the growth rate of prices is, on average, roughly equal to the growth rate of unit labor cost.

The chief advantage claimed for tax-based income policies is that they are efficient in the sense that they do not interfere with market-based decisions. In principle, each firm which has a market incentive to violate the guidelines is free to do so, subject only to the tax penalty (subsidy). Thus serious misallocation of resources is avoided.

The chief alleged weakness in the proposed tax-based income policies is that the distinction between them and a formal control program is unclear. The problem of the appropriate wage guidelines exists, as do the problems of computing weighted indexes, selecting appropriate base years, defining appropriate coverage, providing for exclusions based on equity considerations, and ensuring the audit and verification of program elements. These problems are more severe under some forms of TIP than others. However, a recent study of the administrative burdens of TIP concluded that even the most carefully designed and limited TIP would entail significant administrative and compliance problems for both the Internal Revenue System and for business.² Some proponents of TIP, for example, Arthur Okun and Lawrence Seidman, believe that these problems are nevertheless manageable at a cost well below their promised benefits. Others, like Gardner Ackley and Alan Greenspan, believe the administrative complexity of TIP is very possibly a fatal flaw.

As a practical matter, the fact that TIP focuses solely on wage and salary income makes it unacceptable to organized labor. As a matter of equity, either all forms of income—salary and wages, profits, dividends, rents, and interest income—must be subject to the tax penalty (subsidy) or prices must be the focus of the TIP program. The difficulty with broadening TIP along either of these lines is that the added benefits in the

(Continued on page 2)

¹For an overview of the debate surrounding short-run anti-inflation policies, the reader is encouraged to consult David C. Colander, ed., *Solutions to Inflation* (Harcourt, Brace, Jovanovich, Inc., 1979).

²Larry L. Dildine and E. M. Scanley, "Administrative Problems of Tax-Based Income Policies," in Arthur M. Okun and G. L. Perry, eds., *Curing Chronic Inflation* (The Brookings Institution, 1978), pp. 127-153.

(Continued from page 1) form of price relief are likely to be small relative to the additional costs of administration.

David Colander has suggested that this equity problem can be overcome if value added (or net sales) rather than wages is made the object of TIP. Value added is the difference between a firm's gross sales and its purchases from other firms. Thus it is the sum of the profit, wage, rent, and interest income originating within the firm.

Unfortunately, the use of value added or net sales risks undermining much needed improvements in productivity in the economy. Net sales are the product of price and quantity and the latter may change due to changes in labor, capital, or the organization of production. To avoid a tax on productivity, it would therefore be necessary to adjust the general guidelines for each firm according to the changes in inputs and organization specific to that firm. While these problems are perhaps manageable, they are not unlike the administrative burdens which make a full-blown income control program unattractive. In addition, under a value-added TIP, a firm will find itself subject to the tax if its sales are unexpectedly large, even though there is no increase in its prices. And it may avoid taxation with unexpectedly low sales despite perhaps significant increases in prices. These complications may well weaken the equity basis of the value-added TIP and may, in part, frustrate the objective of price stability.

The use of tax incentives to induce price restraint is attractive because it appears consistent with the tenets of a free-enterprise economy. To its proponents, TIP offers the promise of price stability with minimal interference with economic freedom and resource allocation. It impinges on private economic power in a broad and seemingly impersonal way. There is an expectation in TIP that the exercise of private economic power will be in the public interest so long as government provides the appropriate market incentive (disincentive).

The promise of TIP may well prove to be illusory. The Weintraub-Wallich proposal penalizes all industries in an attempt to build business resistance to inflationary pay demands in low productivity-gain industries. Both the Okun and Olson variants propose to subsidize low productivity-gain industries. If effective, these programs seem likely to distort relative wages and undermine much needed long-run productivity gains in the economy as a whole.

TIP proposals are based on an unrealistic view of labor-business relations in industries characterized by large firms and strong unions. TIP puts the union in the position of asking its members to accept reductions in real wages regardless of the productivity gains of the industry. If, for example, the guideline is 7 percent and the inflation rate is 10 percent, workers with 2 percent productivity gains would be asked to accept a 3 percent *reduction* in their real wage, though they would surely think themselves entitled to a 2 percent increase in real income. While the social justification for this is that any wage gain in excess of productivity gains is inflationary, it is difficult to see why unions in a position to make real wage gains should voluntarily give them up. The issue is the long-standing one of market power and institutional rigidities. One might reasonably ask how long short-run public policies which ignore the institutional basis of our economic problems can be expected to earn the support of the American

people.

Perhaps it is time to adopt short-run policies which confront head-on the structural foundations of the inflationary bias in the economy. A serious guidelines policy, together with responsible monetary policy, is sufficient to eliminate the inflationary bias in the economy. However, such a program must be properly focused (on industries characterized by market failure) and backed by meaningful economic sanctions.

The Carter guidelines program has been ineffective due to an unfortunate focus on individual firms rather than selected markets and an inability (or unwillingness) to confront the institutional arrangements which impede the operation of market forces in particular industries. These problems are likely to defeat any program centered in the White House.³

A serious guidelines program probably requires at least the following:⁴ (1) the creation of an independent price-wage regulatory agency by Congress, (2) the provision for labor-business-public participation in the formation of broad agency policy (visible evidence of a social consensus), and (3) provision for a permanent, full-time professional staff with statutory authority to: (a) require prenotification of price-wage changes, (b) obtain data and documents in support of proposed price-wage changes, and (c) prohibit proposed price-wage changes when agency standards are substantially violated.

The singular advantage of a nonpoliticized guidelines policy is that it would require the affected parties (those with market power) to consent to price-wage restraint based on demonstrable market conditions. Admittedly, this is a politically difficult course to follow.

Public support for a pro-competitive policy is mixed. The essential elements of a pro-competitive policy (freedom to contract and exchange) were included in one of four alternative economic scenarios recently submitted to a panel of influential Americans drawn from labor, business, government, and public interest groups.⁵ The other scenarios were weighted with environmental-humanist concerns (improving the quality of life), corporatism (maximizing economic growth and efficiency), and egalitarianism (promoting social and economic equality). On average, the panelists expressed a modest preference for pro-competitive reform. However, the executives on the panel believed their employers overwhelmingly favored corporatism and influential labor members expressed overwhelming support for egalitarian reforms.

(Continued on page 6)

³My own experience at the Council on Wage and Price Stability during 1975 and 1976 led me to believe that a vigorous market information program backed by the influence of the White House was a sufficient supplement to responsible monetary policy for the purpose of promoting short-term price stability. See "Inflation: Can We Break the Momentum?" *Business in Nebraska* 58 (April, 1979). Complete market information is a potent force for price restraint. However, the White House will sometimes prove to be a poor pillar upon which to erect such a program. Thus it seems best to center a serious guidelines program in an independent regulatory agency.

⁴The conditions are essentially those set out in Gardner Ackley, "An Incomes Policy for the 1970's," *Review of Economics and Statistics* 54 (August, 1972), pp. 218-223.

⁵James O'Toole, "What's Ahead for the Business-Government Relationship," *Harvard Business Review*, March-April, 1979, pp. 94-105.

Table 1
NEBRASKA PERSONAL INCOME BY SOURCE
1973-75 COMPARED WITH 1976-78
(in percent)

County	Dividends Int., Rent		Transfer Payments		Total Wages and Salaries		County	Dividends, Int., Rent		Transfer Payments		Total Wages and Salaries	
	1973-75	1976-78	1973-75	1976-78	1973-75	1976-78		1973-75	1976-78	1973-75	1976-78	1973-75	1976-78
Adams	19.6	20.3	11.9	12.3	68.5	67.4	Johnson	23.3	26.2	12.9	15.7	50.5	58.1
Antelope	19.1	22.1	12.8	13.5	68.1	64.4	Kearney	17.8	23.1	7.7	9.2	74.5	67.7
Arthur	19.4	21.8	8.7	10.8	71.9	67.4	Keith	20.8	22.4	10.9	12.0	68.3	65.6
Banner	15.1	19.4	3.5	5.6	81.4	75.0	Keya Paha	30.1	37.9	12.2	15.1	57.7	47.0
Blaine	20.9	35.2	12.8	17.7	66.3	47.1	Kimball	17.8	20.7	8.5	10.3	73.7	69.0
Boone	19.9	24.1	12.3	13.4	67.8	62.5	Knox	22.9	25.5	17.4	18.6	59.7	55.9
Box Butte	22.1	23.3	10.1	11.2	67.8	65.5	Lancaster	17.2	16.3	9.4	9.8	73.4	73.9
Boyd	21.9	26.1	16.7	19.9	61.4	54.0	Lincoln	16.6	16.2	15.0	14.8	68.4	69.0
Brown	25.6	27.7	13.1	13.7	61.3	58.6	Logan	30.6	33.5	12.0	14.2	57.4	52.3
Buffalo	17.6	19.0	10.9	11.3	71.5	69.7	Loup	28.3	41.7	12.6	20.4	59.1	37.9
Burt	19.7	23.5	12.5	16.2	67.8	60.3	Madison	17.9	17.6	10.2	10.4	71.9	72.0
Butler	22.8	28.7	11.6	14.9	65.6	56.4	McPherson	30.2	39.5	13.0	15.4	56.8	45.1
Cass	15.4	17.0	11.7	14.1	72.9	68.9	Merrick	22.5	27.1	11.2	13.9	66.3	59.0
Cedar	20.8	22.1	13.4	13.7	65.8	64.2	Morrill	15.2	19.0	12.4	15.5	72.4	65.5
Chase	15.3	21.6	8.6	11.0	76.1	67.4	Nance	21.0	24.4	13.8	16.1	65.2	59.5
Cherry	29.3	31.6	10.8	12.6	59.9	55.8	Nemaha	18.1	20.5	12.9	16.1	69.0	63.4
Cheyenne	19.2	22.2	12.1	14.2	68.7	63.6	Nuckolls	21.3	23.9	12.8	15.6	65.9	60.5
Clay	20.5	25.9	11.8	14.0	67.7	60.1	Otoe	22.7	24.6	12.3	13.6	65.0	61.8
Colfax	27.5	29.5	13.0	14.3	59.5	56.2	Pawnee	25.6	30.3	14.7	17.6	59.7	52.1
Cuming	20.7	25.9	9.7	12.4	69.6	61.7	Perkins	17.0	20.0	7.6	9.2	75.4	70.8
Custer	25.4	28.7	13.2	15.0	61.4	56.3	Phelps	24.1	27.9	10.1	12.0	65.8	60.1
Dakota	11.1	11.6	11.0	11.7	77.9	76.7	Pierce	19.7	20.6	12.5	12.4	67.8	67.0
Dawes	21.6	23.5	13.7	16.1	64.7	60.4	Platte	16.9	17.2	8.6	9.3	74.5	73.5
Dawson	21.2	22.7	10.5	11.5	68.3	65.8	Polk	22.8	29.4	10.6	13.4	66.6	57.2
Deuel	23.9	28.2	10.8	13.1	65.3	58.7	Red Willow	20.5	21.7	10.6	12.0	68.9	66.3
Dixon	19.5	23.6	13.2	15.9	67.3	60.5	Richardson	22.9	25.8	14.4	16.5	62.7	57.7
Dodge	18.0	18.6	10.8	12.2	71.2	69.2	Rock	27.9	27.3	13.8	12.8	58.3	59.9
Douglas	13.1	12.9	10.6	11.2	76.3	75.9	Saline	24.3	27.0	11.9	12.4	63.8	60.6
Dundy	19.2	25.9	10.5	12.0	70.3	62.1	Sarpy	6.9	6.6	6.9	7.6	86.2	85.8
Fillmore	23.6	27.3	10.0	11.5	66.4	61.2	Saunders	19.0	21.8	11.3	13.3	69.7	64.9
Franklin	24.7	28.0	13.5	15.1	61.8	56.9	Scotts Bluff	16.9	19.6	10.5	12.5	72.6	67.9
Frontier	20.6	24.5	9.2	12.0	70.2	63.5	Seward	21.9	24.6	10.6	12.9	67.5	62.5
Furnas	24.8	30.6	15.8	18.1	59.4	51.3	Sheridan	28.1	29.5	14.0	15.1	57.9	55.4
Gage	21.2	21.5	13.1	14.0	65.7	64.5	Sherman	20.9	21.9	14.9	15.3	64.2	62.8
Garden	22.3	27.0	11.9	14.9	65.8	58.1	Sioux	21.0	31.7	8.3	12.7	70.7	55.6
Garfield	31.0	33.9	15.4	18.1	53.6	48.0	Stanton	17.1	19.3	8.2	9.4	74.7	71.3
Gosper	22.4	28.6	8.0	10.7	69.6	60.7	Thayer	23.7	27.9	12.7	14.3	63.6	57.8
Grant	35.8	33.0	14.7	15.6	49.5	51.4	Thomas	34.5	42.5	16.6	17.7	48.9	39.8
Greeley	22.7	27.2	14.5	16.0	62.8	56.8	Thurston	13.0	15.0	12.6	15.0	74.4	70.0
Hall	19.0	20.0	12.8	13.6	68.2	66.4	Valley	25.3	28.8	13.5	14.9	61.2	56.3
Hamilton	17.7	21.9	8.4	9.9	73.9	68.2	Washington	17.8	19.6	9.5	10.8	72.7	69.6
Harlan	22.3	28.5	12.2	14.2	65.5	57.3	Wayne	20.2	21.4	10.3	12.5	69.5	66.1
Hayes	15.4	26.8	6.5	13.4	78.1	59.8	Webster	25.5	28.5	14.9	16.3	59.6	55.2
Hitchcock	19.6	27.5	11.5	14.9	68.9	57.6	Wheeler	20.2	22.9	10.6	13.6	69.2	63.5
Holt	20.3	21.8	13.3	13.9	66.4	64.3	York	20.9	25.2	8.9	10.6	70.2	64.2
Hooker	28.5	32.9	14.7	15.8	56.8	51.3							
Howard	23.6	27.7	12.5	14.2	63.9	58.1	U.S.	13.3	13.7	12.7	13.6	74.0	72.7
Jefferson	24.3	26.5	13.1	14.5	62.6	59.0	NEBRASKA	17.3	18.0	10.9	11.9	71.8	70.1

Review and Outlook

Nebraska's real outlook decreased 0.9% in October following two months of little change in the index. The October 1980 index stood at 138.4, down from a September reading of 139.7. When compared with October 1979, the index was down 5.7%. The Nebraska economy has improved from the June 1980 low when the index stood at 135.6, but has failed to make any sustained advance from that trough.

An examination of the Nebraska economy by sector indicates the cross-currents in Nebraska's economy. The agriculture sector recorded a 13.4% decrease, while the non-agriculture sector recorded a 1% increase. All sectors except government and agriculture were up during October. This has led some observers to

suggest that better days are ahead for the Nebraska economy, because the agriculture sector should show considerable improvement due to higher grain prices and the prospects for improved livestock prices.

The agriculture sector declined 13.4% in October from the September level. Cash farm marketings were down 16.3%, or nearly \$94 million, on a seasonally adjusted basis September-October 1980. By contrast, cash farm marketings for the United States were up 2.7% during the same interval. Statistics may not be directly comparable with previously reported data, for cash farm marketing receipts have been revised through January 1980.

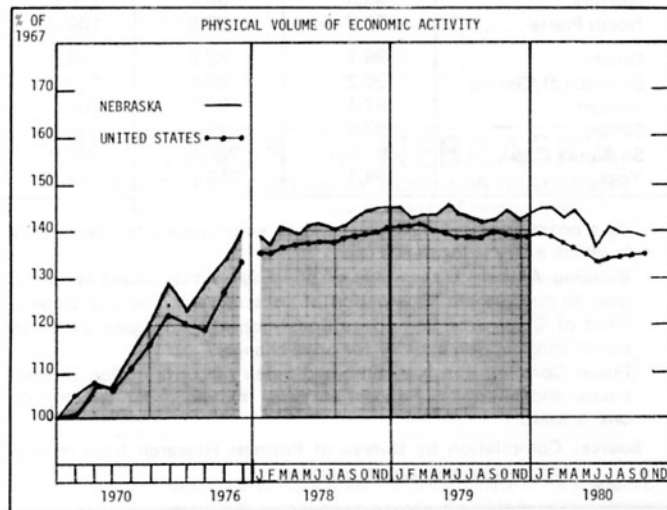
Nebraska agricultural producers recorded a 13.1% increase in prices received October 1979- (Continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

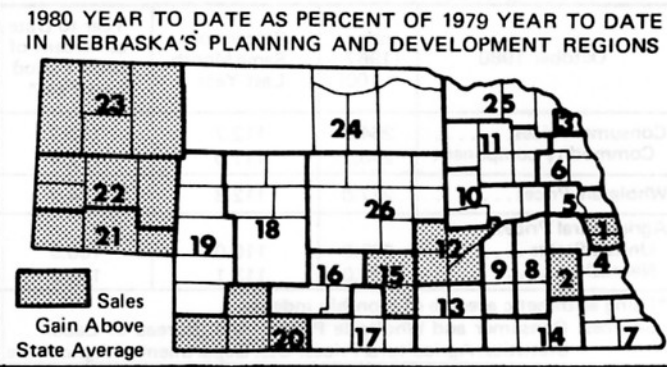
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
October 1980	Current Month as Percent of Same Month Previous Year		1980 Year to Date as Percent of 1979 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	105.5	107.6	108.1	108.8
Agricultural	113.3	103.5	117.6	106.9
Nonagricultural	104.4	107.7	106.7	108.9
Construction	83.7	93.8	75.8	101.4
Manufacturing	105.7	106.6	111.6	109.3
Distributive	105.4	109.5	108.1	109.7
Government	105.6	108.2	105.4	107.2
Physical Volume	94.3	96.4	97.4	96.9
Agricultural	100.1	94.1	116.4	107.0
Nonagricultural	93.6	96.5	95.2	96.6
Construction	76.8	86.1	68.1	91.3
Manufacturing	93.4	94.7	98.6	95.4
Distributive	93.5	97.1	95.1	96.4
Government	99.6	100.9	98.4	101.7

2. CHANGE FROM 1967			
Indicator	Percent of 1967 Average		
	Nebraska	U.S.	
Dollar Volume	347.0	329.0	
Agricultural	337.1	329.8	
Nonagricultural	348.3	329.0	
Construction	246.2	299.6	
Manufacturing	362.4	292.7	
Distributive	361.1	353.9	
Government	329.6	320.7	
Physical Volume	138.4	135.6	
Agricultural	122.1	125.4	
Nonagricultural	140.8	135.9	
Construction	81.0	98.6	
Manufacturing	161.2	129.9	
Distributive	142.1	139.3	
Government	137.3	149.9	

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)			
Region Number and City	City Sales*	Sales in Region*	
	Oct. 1980 as percent of Oct. 1979	Oct. 1980 as percent of October 1979	Year to date '80 as percent of Year to date '79
<i>The State</i>	99.5	97.1	90.7
1 Omaha	113.4	108.3	92.7
Bellevue	83.8		
2 Lincoln	105.5	103.7	92.4
3 So. Sioux City	94.3	86.6	87.6
4 Nebraska City	93.0	84.6	83.5
5 Fremont	91.7	89.3	86.3
Blair	89.2		
6 West Point	83.3	77.4	80.0
7 Falls City	91.2	83.3	84.6
8 Seward	80.9	83.7	85.6
9 York	94.5	89.7	88.1
10 Columbus	84.4	81.8	85.6
11 Norfolk	83.5	83.0	83.5
Wayne	80.8		
12 Grand Island	99.9	95.9	91.9
13 Hastings	85.2	84.6	87.7
14 Beatrice	90.3	84.3	86.4
Fairbury	77.4		
15 Kearney	98.4	95.9	89.8
16 Lexington	82.7	83.9	88.0
17 Holdrege	96.7	92.1	89.3
18 North Platte	79.4	78.3	83.4
19 Ogallala	91.6	83.8	87.7
20 McCook	84.3	91.5	91.7
21 Sidney	84.7	87.8	94.4
Kimball	93.8		
22 Scottsbluff/Gering	92.5	96.1	91.5
23 Alliance	93.5	91.6	91.1
Chadron	90.9		
24 O'Neill	89.7	86.6	84.5
25 Hartington	86.8	84.4	81.6
26 Broken Bow	98.0	81.5	86.2



* State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Region totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.



(Continued from page 4) October 1980. This compares with a 10.2% increase for U.S. agriculture producers over the same interval and compares very favorably with the 11.2% increase in prices paid by agriculture producers.

Nebraska's manufacturing sector recorded a 0.4% increase September-October. The index stood at 140.8 in October, up from 139.4 in September. While the index was up in October 1980, it remains below the year-previous level by more than 6%. Manufacturing employment in Nebraska was 4,000 employees less than in October 1979.

The construction sector recorded a 4.0% increase in October 1980. The index increased from 77.9 to 81.0. The construction index bottomed in June 1980 at 68.5 and has made more or less steady improvement since then.

Output in the distributive trade sector increased 1.9% in October with the index at 142.1, up from 139.5 in September 1980 (the base on the indexes was established at 100 in 1967). Like other sectors of the Nebraska economy, the distributive trade sector has rebounded from the June 1980 lows but has not shown any sustained improvement.

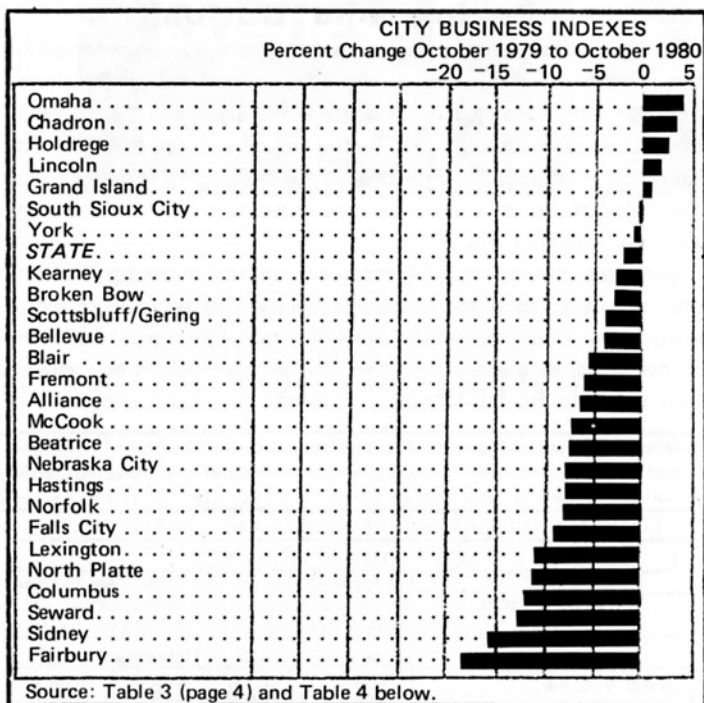
Output in the government sector continued to decline, with the index recording a 2.2% decrease in real output. The government index is essentially unchanged from the year previous. Little movement has been observed in the government sector over the past twelve months.

Nebraska real retail sales were down 0.2% September to October 1980. On a year-to-year basis, real retail sales are down 4.6% in Nebraska. Dollar volume sales are up, however, as inflation has pushed the general price level higher. The commodity component of the consumer price index was 240.7 in October 1980, up 11.6% from October 1979.

The geographic location of economic strength shifted somewhat in October. Omaha led all cities with a 3.9% increase in its city business index, followed by Chadron at 3.5%. Other notable gains in the city business indexes included Holdrege at 2.9% and Lincoln at 1.3%. Grand Island recorded an increase of 0.5% in October and represents the only city with an increase in its city business index in both July and October 1980.

Retail sales reflect the strength in the city business indexes. Omaha recorded a 13.4% increase in real retail sales in October 1980 compared to October 1979 and Lincoln recorded a 5.5% increase in real retail sales over the same interval. Real retail sales declined 0.1% in Grand Island. Dollar volume sales in these three cities were up substantially, since commodity price levels increased 11.6%. Other Nebraska communities where substantial dollar volume gains were recorded include Kearney and Broken Bow.

D. E. P.



4. OCTOBER CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment ¹	Building Activity ²	Power Consumption ³
<i>The State</i>	97.9	82.6	101.1
Alliance	97.4	50.9	103.3
Beatrice	98.5	49.5	102.4
Bellevue	98.7	214.6	94.0
Blair	97.2	85.9	108.9
Broken Bow	97.9	60.6	111.2
Chadron	97.5	153.4	162.9
Columbus	96.5	35.5	104.7
Fairbury	98.1	24.7	73.9
Falls City	98.1	35.2	99.9
Fremont	101.0	52.9	99.4*
Grand Island	97.7	131.3	102.6
Hastings	98.4	83.2	95.2
Holdrege	97.8	107.9	147.6
Kearney	98.4	76.8	98.3
Lexington	97.0	51.1	105.0
Lincoln	97.0	94.9	105.0
McCook	98.1	82.2	107.9
Nebraska City	97.7	50.8	88.3
Norfolk	96.9	65.0	118.4
North Platte	97.7	66.8	100.8
Omaha	98.7	82.8	98.9
Scottsbluff/Gering	96.2	99.4	103.2
Seward	97.4	33.7	109.1
Sidney	98.5	16.0	90.8
So. Sioux City	97.5	224.0	97.0
York	98.1	219.0	89.5

¹ As a proxy for city employment, total employment for the county in which a city is located is used.
² Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
³ Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

October 1980	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	254.1	112.7	113.7
Commodity component	240.7	111.6	112.4
Wholesale Prices	277.0	112.8	114.2
Agricultural Prices			
United States	263.0	110.0	100.3
Nebraska	276.0	113.1	101.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

SOURCES OF NEBRASKA PERSONAL INCOME 1973-1978

Data in Table 1 (p. 3) summarize the sources of Nebraska personal income 1973-1978. Nebraska received a larger proportion of its income from dividends, interest, and rents than the national average, but had a smaller transfer payment sector, that is, Social Security payments, survivors' and disability payments, food stamps, and welfare benefits. This difference probably reflects a fundamental distinction between Nebraska and the rest of the nation—the relatively greater importance of the agriculture sector, rented land and imputed rents from owner-occupied rural housing.

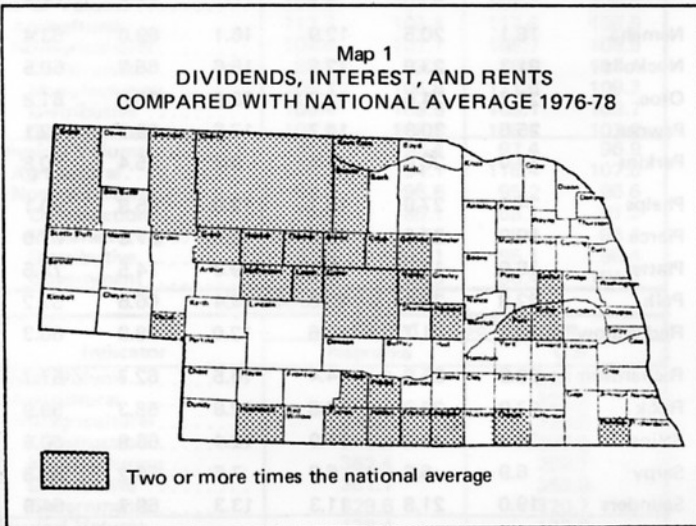
Calculations for Nebraska counties were averaged over three-year intervals, and the periods 1973-1975 and 1976-1978 were compared. Because of the importance of agriculture in Nebraska, there is no such thing as an average or typical year. Furthermore, county income sources could be misleading since numbers are so small in many Nebraska counties.

An examination of the information in Table 1 and Map 1 indicates the importance of agriculture rents in Nebraska's personal income. Areas where dividends, interest, and rents are twice the national 1976-78 average appear in shaded portions of Map 1.

One of the largest cities in the shaded area is Schuyler, in Colfax County. With few exceptions, dividends, interest, and rents are more important source of personal income during the later interval than during 1973-1975.

Nebraska's transfer payment component of personal income was below the national average. Counties with one-third above average reliance upon the transfer component of personal income are concentrated in southeastern Nebraska, southcentral Nebraska, central Nebraska, and northeastern Nebraska. The only exception to these geographic areas is Dawes County in western Nebraska. D. E. P.

Map 1
DIVIDENDS, INTEREST, AND RENTS
COMPARED WITH NATIONAL AVERAGE 1976-78



TAXES (Continued from page 2)

As noted by the author of the study:

As a nation, America seems to have moved too far toward the security of equality to turn back toward total freedom. But it is nevertheless essential to recognize that the dream of the free market remains enticing for most Americans. While there is no evidence that the country is willing to risk the security it possesses in order to realize that dream, there is also no convincing evidence that it would act conclusively and irrevocably to shut off all chances of ever realizing it.⁶

This ambivalent attitude toward the free market makes structural reform a slow and problematical process at best. The temptation is great to search for short-run remedies to market failure which seemingly avoid the painful adjustments of fundamental reform. But I suspect that sooner or later fundamental reform must be embraced.

ROBERT F. ALLEN*

⁶ Ibid., p. 103.

*Professor of Economics, Air Force Institute of Technology.

UNL News

BUSINESS IN NEBRASKA

PREPARED BY BUREAU OF BUSINESS RESEARCH
Member, Association for University Business & Economic Research

Business in Nebraska is issued monthly as a public service and mailed free within the State upon request to 200 CBA, University of Nebraska-Lincoln 68588. Material herein may be reproduced with proper credit.

No. 437 February 1981

UNIVERSITY OF NEBRASKA-LINCOLN
Robert H. Rutford, *Interim Chancellor*
COLLEGE OF BUSINESS ADMINISTRATION
Gary Schwendiman, *Dean*

BUREAU OF BUSINESS RESEARCH

Donald E. Pursell, *Director*
Charles L. Bare, *Statistician*
Jerome A. Deichert, *Research Associate*
Anne M. Ralston, *Research Associate*
James R. Schmidt, *Research Associate*
Jean T. Keefe, *Editorial Assistant*

Publications Services & Control
University of Nebraska-Lincoln
Nebraska Hall—City Campus
Lincoln, Nebraska 68588

The University of Nebraska-Lincoln does not discriminate in its academic, admissions, or employment programs and abides by all federal regulations pertaining to same.