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# Perestroika and the Prospects for Trade

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## Introduction

In recent months, remarkable events in the Soviet Union and Eastern Europe have filled the news. These changes have attracted the attention of American businesses eager to profit from increased U.S. trade with the restructured nonmarket economies. Although trade with the nonmarket economies is often sporadic, their trade with the U.S. is on the rise, with two way trade up 34 percent over 1988 to $6.5 billion for January-September of 1989. These developments are potentially important to Nebraska's economy—a substantial amount of this trade represents agricultural commodities. This article assesses U.S. prospects for expanded trade with the nonmarket economies.

Three-quarters of U.S. exports to the Soviet Union are farm products. The U.S.S.R. is the largest single market for exports of U.S. grain. Corn is the leading U.S. export to the Soviets and East Europe. Wheat is the second largest export to the U.S.S.R. and the leading export to China.

Nebraska ranked fourth among American states in agricultural exports for 1987. Nebraska corn and other feed-grain exports amounted to $535 million in 1987 and accounted for one-third of Nebraska production. Nebraska wheat exports in 1987 amounted to $99 million, almost half of Nebraska's harvest.

Table 1 shows the estimates of Nebraska's rank in agricultural commodity exports for the 1988 fiscal year. In 1988, Nebraska contributed $2,118 million (6.55 percent) to total U.S. agricultural exports. In some commodity groups, the state's percentage contribution was much higher. In the feed grains and products group, which includes corn exports, Nebraska contributed $760.6 million (12.21 percent) of U.S. feed grain exports. Clearly, Nebraska's agricultural exports play a significant role in U.S. agricultural trade.

Therefore, a substantial increase in agricultural exports to the nonmarket economies would have a significant positive impact on the Nebraska economy.

**Table 1**
**Nebraska's Rank Among States in Agricultural Commodity Exports 1988**

| Commodity Group | Nebraska's Rank |
|---|---|
| Soybeans & Products | 7 |
| Feed Grains & Products | 3 |
| Hides & Skins | 3 |
| Live Animals & Meat | 3 |
| Feed & Fodder | 3 |
| Animal Fats | 3 |
| Seeds | 4 |
| Total | 6 |

Source: *Foreign Agricultural Trade of the United States* (March/April 1989)

Given the pace of change in Eastern Europe and the Soviet Union, conditions seem ripe for improving trade ties with these economies. There are several hundred million potential consumers of American products in Eastern Europe, not to mention over one billion potential consumers in China.

After decades of isolation from world trade, modern technology, and western consumerism, many East European governments are abandoning centralized planning in favor of freer markets. Socialism's inefficiency and rigidities led to chronic shortages of consumer goods. The public was obliged to save, because there was little to purchase. It is estimated that approximately 200 billion rubles ($320 billion at official exchange rates) lie dormant in savings accounts in the Soviet Union. American businesses have been eyeballing this gigantic pent-up demand for goods with considerable optimism, but before the U.S. banks on increased sales, it would be wise to take a more realistic view of trade prospects with the nonmarket economies.

The policies of Eastern Europe and the Soviet Union are moving in the direction of freer trade. The U.S. has negotiated trade agreements with China, Hungary, Poland, and the U.S.S.R. to give them equal access to the U.S. market. A new grain agreement between the U.S. and the Soviet Union sets minimum purchases of grain from the U.S. at 10 million metric tons per year, an 11 percent increase from the current grain agreement, and will allow the Soviets to purchase up to 14 million metric tons without additional consultation. The new agreement is expected to be signed at the June summit meeting between President Bush and Gorbachev and will become effective by January 1, 1991. Despite these trade agreements, there are still many problems to be resolved before either the Soviet Union or Eastern Europe will be capable of significantly increasing their participation in world trade.

**Convertibility of Foreign Exchange**

Several factors hinder the development of trade relations with the nonmarket economies. The greatest obstacle to trade between nonmarket economies and market economies is the inconvertibility of their currencies. Inconvertibility means that some holders of rubles, for instance, cannot exchange them for dollars or other currencies. If Poland were to export coal to the Soviet Union, it might receive 10,000 rubles; however, the rubles would be useless to Poland as payment for purchases from anyone other than the U.S.S.R. Without true convertibility, foreign transactions are reduced to cumbersome bilateral barter. Nebraska grain traders might be able to sell more corn, for instance, only if they were willing to take Soviet textiles in return. This barter is referred to often as *counter trade*.

Everyone agrees that full convertibility is a precondition for continued trade expansion, but how likely is it? Devoid of foreign exchange reserves, many nonmarket economies cannot maintain the artificially high values of their currency with complete convertibility. With the exception of the Polish zloty (devalued 31 percent to 9500 per dollar and now partially convertible), Yugoslav dinar, and Czech koruna, the nonmarket economies currencies are grossly overvalued. The mark of the German Democratic Republic nominally equals the mark of the Federal Republic of Germany, but its black market value is only 10 percent of the official value. The official Soviet exchange rate of 0.64 rubles per dollar contrasts with a rate of 15 per dollar bid recently in a limited auction open to enterprises in the U.S.S.R. Soviet authorities intend to ameliorate the financial situation gradually, yet they do not expect to have a fully convertible ruble before the year 2000. Even after China devalued to 4.72 yuan per dollar in December, black market rates were about 6 per dollar.

Poland's move to make the zloty convertible has been a painful one. Within days of new economic reforms, prices jumped dramatically in Poland. Bread prices rose 38 percent, home electricity 400 percent, coal for home heating 600 percent, and telephone calls 100 percent, all in response to reforms. By the end of 1989, Poland's annual inflation rate had reached 500 percent.

The Polish government has received assistance from 15 countries who have created a $1 billion fund to stabilize the zloty. This fund may prove successful for the Polish economy, although it is uncertain whether other nonmarket economies will be given the chance to benefit from such a program.

Depreciation of nonmarket economy currencies probably would depress exports from Nebraska and the rest of the United States for several reasons: (1) Depreciation makes U.S. goods more expensive within the nonmarket economies if exchange rate changes are passed through to prices; (2) In order to be effective, devaluation must be accompanied by restrictive monetary and fiscal policies. These policies may have the immediate effect of lowering the output and incomes of enterprises and consumers; (3) If prices within nonmarket economies are allowed to adjust to international levels, they will rise and wipe out the real purchasing power of hundreds of billions of rubles, yuan, etc., that persons have been forced to hold in savings because of shortages of consumer goods. Eastern Europeans may want more Nebraska wheat and feed grains, but after their currencies depreciate, they will have less purchasing power than they currently hold.

**The Prospects for Nonmarket Economy Exports**

Growth in transactions with the West does not appear likely in the near future, because many nonmarket economies already have large trade deficits with western economies. In order for trade to increase, the nonmarket economies must be able to export more goods to the West or be able to finance their imports with increased credit from the West. What are the prospects for these conditions to be met?

At present, the nonmarket economies export mainly clothing, footwear, simple consumer electronics, fuels, and unsophisticated manufactured products. The quality of many of these products is poor, and the supply to the U.S. from developing countries is abundant. These factors present the question of whether the U.S. economy would be willing to import more of these goods and, if so, what the reaction might be from some of the depressed American industries that would be competing with nonmarket economy products? Many industries in the nonmarket economies are highly subsidized by their governments. These subsidies could cause countervailing duties to be imposed on nonmarket economy products upon entry into the U.S. An opportunity exists to create a brokerage service that would convert nonmarket economy products into more usable cash or credit.

Government restrictions on exports also can reduce international trade. Nonmarket economy governments often have restricted the exports of goods that are in short supply. The U.S.S.R. embargoed exports of refrigerators, washers, TVs, shoes, coffee, and caviar last year when the Poles increased their purchases. Nebraskans, too, are well aware of U.S. government embargoes on shipments of grain to the Soviet Union.

**Financing Nonmarket Economy Imports**

The nonmarket economies need imports in order to reform their economies and revitalize industries. But if they cannot export more now, they need to borrow more. The gravity of the situation in the nonmarket economies and the need for financial assistance is obvious; however, the record of the nonmarket economies to meet debt payments is not encouraging. Furthermore, the swift and large scale changes in government, while laudable in their movement toward democracy, add further elements of uncertainty to their financial standing. The new governments simply do not have financial track records. West Germany and Japan, with large current account surpluses, stand ready to increase loans to these countries, but these look as risky as loans to developing countries in the 1970s. The U.S. cannot increase total lending overseas, however, without reducing its trade deficit. With the U.S. economy running at full capacity, the U.S. cannot reduce its trade deficit unless it cuts real domestic investment or consumption of public and private goods. Thus, the U.S. can finance increased exports to the nonmarket economies only by diverting money from other areas that are also in serious need of resources.

Increased foreign investment is another way the nonmarket economies might be able to import capital and reform their economies. Poland's reforms and the agreement recently signed between the U.S. and Poland are designed to promote trade and investment. Under the new Polish-U.S. accord, U.S. investors are to receive the same treatment as local investors, and U.S. investors will be allowed to bring their profits home. Allowing repatriation of profits is important in order to attract foreign investment, but many nonmarket economies have yet to follow Poland's lead. Currency convertibility is also necessary for effective repatriation of profits.

Political instability may discourage foreign investment. Recent events in China indicate how quickly rules can be changed to the government's convenience without regard for economic implications.

Over the past few years, joint ventures between nonmarket economy enterprises and western firms have increased because most nonmarket economies will not allow wholly owned foreign subsidiaries to operate inside their borders. An estimated 750 joint ventures were operating in the Soviet Union at the end of 1989, compared with a mere 23 in 1987 and 168 in 1988. The rise in joint ventures resulted from the Soviets abandoning their insistence on 51 percent ownership and control by their executives. Most of these joint ventures involve computer hardware and software, consumer goods, and domestic trade. Despite the dramatic rise in the number of joint ventures, most nonmarket economy governments still want domestic control, favor inefficient counter trade, and limit the repatriation of profits. Where nonmarket economies currencies are nonconvertible, repatriation of profits can be conducted only by exporting available items from the nonmarket economies. These barter arrangements can be expensive in time and money for the western partner in the joint venture and could be financial suicide if the firm is unfamiliar with the product and the market.

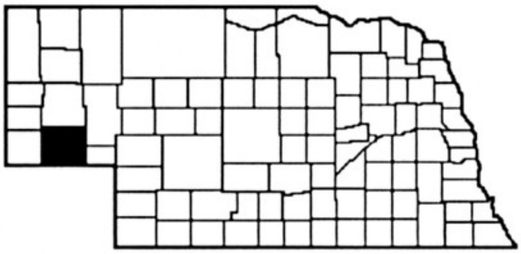
The potential inefficiencies of this barter system are illustrated by the recent Pepsi contract with the U.S.S.R. Here, a soft drink company transformed itself into a wholesale distributor of ships and vodka in order to pursue its original line of business in the U.S.S.R.

Foreign investors in the Soviet Union and in other nonmarket economies face additional problems such as inflexible wages and prices and an inadequate infrastructure. The nonmarket economies also need to establish important economic institutions, such as stock and bond markets, a credit and banking system, and other

*County of the Month*

# Cheyenne

**Sidney--County Seat**



**License plate prefix number:** 39
**Size of county:** 1,186 square miles, ranks 11th in the state
**Population:** 10,000 (estimated) in 1988, a change of -0.3 percent from 1980
**Median age:** 32.8 years in Cheyenne County, 29.7 years in Nebraska in 1980
**Per capita personal income:** $15,841 in 1987, ranks 17th in the state
**Net taxable retail sales** ($000): $57,777 in 1989, a change of +1.5 percent from 1988
**Number of business and service establishments:** 321 in 1987; 64.5 percent had less than five employees
**Unemployment rate:** 2.6 percent in Cheyenne County, 3.6 percent in Nebraska for 1988
**Nonfarm employment (1989):**

| | **State** | **Cheyenne County** |
|---|---|---|
| Wage & salary workers | 705,672 | 3,982 |
| | (percent of total) | |
| Manufacturing | 13.4% | 9.4% |
| Construction and Mining | 3.6 | 3.0 |
| TCU | 6.5 | 8.5 |
| Retail Trade | 18.5 | 36.8 |
| Wholesale Trade | 7.6 | 4.9 |
| FIRE | 6.8 | 3.1 |
| Services | 23.7 | 13.2 |
| Government | 19.9 | 21.1 |
| Total | 100.0% | 100.0% |

**Agriculture**:
Number of farms: 740 in 1987, 701 in 1982
Average farm size: 1,035 acres in 1987
Market value of farm products sold: $94.4 million in 1987 ($127,575 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

components of private enterprise such as an accounting system, a system of property rights, copyrights, patents, and contract law. Obviously, such institutions cannot be established overnight—it is unlikely that foreign investment will be able to give the nonmarket economies the purchasing power to buy U.S. exports in the near future.

**What if Perestroika Succeeds?**

Suppose that the nonmarket economies succeed in restructuring their economies. Assume that their production becomes unsubsidized and unregulated, that wages, prices, interest rates, and exchange rates are free to move up and down, that consumers are not subject to rationing, that trade and other international transactions are unrestricted, and that the nonmarket economy governments follow prudent monetary and fiscal policies. Successful perestroika would mean that resources in the nonmarket economies would be reallocated to their most economically efficient uses. But what would the reallocation mean for the Nebraska economy?

Paradoxically, success of reforms in the nonmarket economies could limit the expansion of U.S. agricultural exports. Many of the nonmarket economies appear to have a comparative advantage in producing agricultural products and, until now, they have had to import only because socialist regulations prevented them from realizing their comparative advantage. To the extent that Nebraska exports consist of agricultural products, successful perestroika could dampen Nebraska's agricultural commodity exports. Nebraska manufacturers of farm equipment and processed foods, however, might benefit.

The Soviet Union is pushing for gradual use of hard currency within its own farm program. On an experimental basis, farmers producing exceptional yields of wheat, peas, lupine, and oil seeds are to be paid in hard currency that they may use for purchases of western goods such as tractors. In many instances, however, the promised hard currency has not been forthcoming, thus undermining the credibility of the Soviet government and demoralizing the farmer. But if such programs were successful, it is possible that the depressed yields in Soviet agriculture

(continued on page 12)

# Our College Graduates' Decisions Where to Live and Work: Part I

**Randy Eck**
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Where our college graduates decide to live and work has long-term economic implications for Nebraska's future. Many questions need to be examined. For example, for what do Nebraska graduates look in a place to work? In a place to live? What are the main causes for some graduates leaving the state?

A recent study by the Bureau of Business Research sought to find answers to these and similar questions concerning where the state's graduates choose to live and work. The major findings of this study will be reported in a three part series in *Business in Nebraska*. This first part introduces the nature of the study and reports some of the general findings.

A report released by the Nebraska Department of Economic Development (NDED) in the early 1980s showed the extent of the exodus of college graduates from Nebraska for the period 1975 through 1980. Based upon data collected from the 1980 census, the report showed that the highest outmigration rate from Nebraska for 1975-1980 was among the unemployed with college degrees.

Of the 119,040 individuals moving into Nebraska during that period, 31,600, or 26.5 percent, had college degrees. Of the 131,400 persons leaving Nebraska, 38,880, or 29.6 percent, held college degrees. In terms of degree holders, the state experienced a net loss of 7,280 college graduates. That net loss was referred to by many as the state's *brain drain* for the 1975-1980 period.

A recent report by the Nebraska Alumni Association showed that approximately 46 percent of the University of Nebraska-Lincoln's (UNL) graduates for the period 1971 through 1989 reside outside Nebraska. The 46 percent figure is well below the comparable figure for 1951

**Table 1**
**Response Rate of Nebraska Universities**

| School | Total Possible Responses | Response Rate Percent | Total Responses | In-State | Out-of-State |
|---|---|---|---|---|---|
| UN-Lincoln | 492 | 55.3 | 272 | 124 | 148 |
| UN-Medical Center | 100 | 61.0 | 61 | 25 | 36 |
| UN-Omaha | 183 | 58.5 | 107 | 51 | 56 |
| Wayne State | 58 | 56.9 | 33 | 19 | 14 |
| Union College | 25 | 80.0 | 20 | 7 | 13 |
| Concordia | 29 | 75.9 | 22 | 10 | 12 |
| Nebraska Wesleyan | 30 | 36.7 | 11 | 7 | 4 |
| Doane | 23 | 60.1 | 14 | 6 | 8 |
| Midland Lutheran | 24 | 54.2 | 13 | 9 | 4 |
| Saint Mary | 22 | 59.0 | 13 | 9 | 4 |
| Kearney | 162 | 56.7 | 92 | 36 | 56 |
| Dana | 10 | 50.0 | 5 | 3 | 2 |
| Creighton | 189 | 46.6 | 88 | 43 | 45 |
| No Response | 4 | | 4 | 2 | 2 |
| Total | 1351* | | 755 | 351 | 404 |

*The total possible response column takes into account those questionnaires that could not be delivered or forwarded by the postal service through 1970. The Alumni Association office reported the figure for that period to be 60 percent.

A recent study by the Institutional Research Planning and Fiscal Analysis Department at UNL showed that 10.9 percent of the present student population at UNL are out-of-state students. A comparison of the 10.9 percent rate and the 46 percent outmigration figure cited earlier for UNL indicates that substantial numbers of Nebraska's resident population with college degrees leave the state to pursue careers elsewhere.

The student migration pattern for UNL may not describe the pattern for Nebraska's independent colleges. Data from Dana College, for example, show that 58 percent of Dana's 1989 graduates remained in Nebraska. The proportion of out-of-state students in the 1989 class was 48 percent, indicating that after graduation a significant number of out-of-state students decided to remain in Nebraska.

Data reported by the Nebraska Coordinating Commission for Post-Secondary Education indicate that, on average, 42 percent of the student populations of independent colleges in Nebraska are out-of-state students. That figure compares with 10.9 percent for UNL.

Two tentative conclusions can be drawn from these data and reports on college graduate migration. First, college graduate migration appears to have declined in recent years.

Second, the college graduate migration pattern appears to differ between the state's public and private institutions of higher learning. With the college graduate migration still high, it is important to identify reasons why Nebraska college graduates decide to work and live elsewhere.

Mail surveys measuring demographic and attitude characteristics were sent to a random selection of individuals who had graduated from Nebraska four year colleges and universities from September 1983 to June 1988.

From the college graduate pool of thirteen four year colleges and universities in Nebraska and for the time period just cited, an equal sample of out-of-state and in-state residents were contacted.

The sample of contacts was based on the proportion of college graduates by institution relative to the total number of

**Table 2**
**Profile of Nebraska and Out-of-State Residents**

| | % Respondents | |
|---|---|---|
| Statement | Nebraska | Out-of-State |
| **Gender** | | |
| Male | 45% | 51% |
| Female | 54% | 48% |
| **Household Income** | | |
| Less than $5,000 | 2% | 1% |
| $5,000-$7,499 | 2% | 1% |
| $7,500-$9,999 | 1% | 1% |
| $10,000-$14,999 | 5% | 4% |
| $15,000-$19,999 | 10% | 7% |
| $20,000-$24,999 | 11% | 10% |
| $25,000-$34,999 | 21% | 17% |
| $35,000-$49,999 | 20% | 24% |
| $50,000 or more | 25% | 33% |
| **Population City/Town** | | |
| Less than 1,000 | 5% | 3% |
| 1,000 to 2,499 | 5% | 3% |
| 2,500 to 9,999 | 8% | 6% |
| 10,000 to 19,999 | 4% | 3% |
| 20,000 to 39,999 | 7% | 7% |
| 40,000 to 79,999 | 1% | 10% |
| 80,000 to 199,999 | 15% | 11% |
| 200,000 to 499,999 | 29% | 11% |
| 500,000 or more | 23% | 44% |
| **Education Level** | | |
| < 12th grade | 0 | 0 |
| 12 (high school graduate) | 0 | 0 |
| Some college | 1% | <1% |
| College (undergraduate) | 62% | 61% |
| Masters | 26% | 19% |
| Doctorate | 10% | 19% |
| **Age** | | |
| Less than 21 | <1% | 0 |
| 21 to 25 | 18% | 20% |
| 26 to 30 | 48% | 51% |
| 31 to 35 | 17% | 14% |
| 36 to 40 | 7% | 7% |
| 41 to 45 | 6% | 4% |
| 46 to 50 | 1% | <1% |
| 50 and above | 3% | 1% |
| **Born In Nebraska** | | |
| Yes | 67% | 52% |
| No | 31% | 47% |
| **Intent to Leave Nebraska After Graduation** | | |
| Yes | | 32% |
| No | | 63% |

graduates in the state during the study period.

A total of 1383 questionnaires were mailed: 692 to out-of-state residents and 691 to in-state residents. Of the 1383 questionnaires mailed, 755 usable responses were received, a 54.6 percent response rate. Of the 755 usable responses, 404 were returned by Nebraska college graduates presently living out-of-state. The remaining 351 responses were returned by Nebraska college graduates presently living in Nebraska. The response rate for each Nebraska college and university is shown in Table 1.

Based on the survey results, a demographic profile of Nebraska's college graduates currently living in Nebraska and those residing outside Nebraska is shown in Table 2.

A cautionary note is in order. Information from the 755 usable responses may not be representative of the population of Nebraska alumni living in Nebraska and living out-of-state for two reasons. The sample was limited to those who graduated during the period September 1983 to June 1988. Second, the mailing lists provided by the alumni centers of each college and university may not reflect a random sample of college graduates for the study period. Alumni offices must rely on their graduates to keep records current. Thus, there is room for bias.

Those alumni who respond to their alumni office and keep addresses current may have different attitudes toward Nebraska than those alumni who do not. Those who maintain current addresses with their alumni associations may have closer ties to the state, have more positive attitudes toward Nebraska, and may be less likely to migrate to other states.

Furthermore, these alumni may be more likely to respond to a survey on college graduate migration. In contrast, those originally from out-of-state or with weak ties to Nebraska may never respond to their alumni association. The attitudes and responses reported in this survey are limited to alumni who could be traced.

The demographic profiles given in Table 2 for the Nebraska and out-of-state respondents indicate a substantial similarity in gender, education, and age. A closer examination of these demographic data suggest that income may be a major motivational factor enticing Nebraska's college graduates to leave the state.

Approximately 57 percent of out-of-state residents earn $35,000 or more, compared to only 45 percent for Nebraska residents. Because no major difference exists in the percentages of respondents in each occupational category (not shown in Table 2), an inference can be made that the wage rate for college graduates in Nebraska is lower than in other states. The result is an exodus of grads who perceive that richer careers exist elsewhere.

Another theory on the wage discrepancy is that out-of-state employers are better at enticing the best and brightest Nebraska graduates to work in their states. The wage discrepancy may not be the result of a difference in wages at the same skill level in the same occupations, but a difference in talents between those alumni living in Nebraska and those residing in another state. The difference in talents between alumni may have resulted in the wage discrepancy between Nebraska and out-of-state graduates in this study.

The 1984 NDED report on outmigration trends supported the former wage discrepancy argument, stating that Nebraska had a less competitive, lower paying wage structure in 1980 relative to other parts of the country.

An interesting study, well beyond the scope of this survey, would be a comparison of skills and other quality measures of the migrant workforce. The issue at hand would be whether migrants into Nebraska had better skills and training than outmigrants from Nebraska.

Whether a wage discrepancy or a skill discrepancy exists between college graduates residing in Nebraska and those living in other states is open to debate.

As will be shown in greater detail in later issues of *Business in Nebraska*, other factors may play a part. For example, perhaps Nebraska's college graduates currently living out-of-state would have remained in the state, even with lower relative wages, if greater job opportunities were available in Nebraska.

The 1984 NDED study reported that the highest outmigration rates were among the unemployed with college degrees. The current study found that 63 percent of the out-of-state respondents had no intention of leaving Nebraska after graduation.

Perhaps a lack of sufficient job opportunities in Nebraska and/or better wage offers from out-of-state employers may be forcing college graduates to leave the state. Nebraska may lack certain other amenities relative to other states.

In the next edition, the second part of this series will determine if a difference in attitudes toward Nebraska as a place of residence existed between Nebraska college graduates currently living in the state and those who moved from the state.

# We Erred...

In the article on "Evaluating Banks" in last month's issue, we confused some readers with an error at the bottom of page two, the last full paragraph. The second from the last word in the paragraph should read "failed." The error was our own, not that of the authors. We apologize to the authors for creating the error and to our readers for undue confusion.

John S. Austin

# Changes in Spending Patterns 1901 to 1987

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The pattern of U.S. consumer expenditures since the turn of the century is displayed in the table below based on data supplied by the Bureau of Labor Statistics. The most notable change is the decrease in food and beverage expenditures from 46.4 percent in 1901 to 19.4 percent in 1986-1987. The other major decrease was in the apparel and services component. Taking up the slack have been major advances in expenditures on vehicles, housing, and entertainment.

Unfortunately, these figures don't square with data on expenditures from other sources. The share of expenditures on housing (totalling 32 percent in these data) does not match the 42 percent share found in the CPI base. In addition, the share of health care expenses is suspiciously low and has shown a decrease from the early 1960s. I suspect that medical insurance is buried in another category. Nevertheless, the data are interesting, for they depict general trends.

**Consumption Expenditures of Urban Wage Earner and Clerical Consumer Units 1901 to 1986-1987**

| Item | 1901 | 1917-19 | 1934-36 | 1950 | 1960-61 | 1972-73 | 1986-87 |
|---|---|---|---|---|---|---|---|
| Income Before Taxes[1] | $827 | $1,505 | $1,518 | — | $6,678 | $12,771 | $27,576 |
| Income After Taxes[1] | — | — | — | $3,923 | $5,912 | $11,054 | $24,986 |
| Average Family Size | 5.3 | 4.9 | 3.6 | 3.4 | 3.2 | 3.2 | 2.9 |
| Percent Homeowner | 19 | 27 | 30 | 44 | 56 | 57 | 56 |
| Percent of Current Consumption | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Food and Beverages | 46.4 | 41.1 | 34.7 | 32.5 | 26.0 | 22.6 | 19.4 |
| Shelter | 15.1 | 13.9 | 17.7 | 10.7 | 13.7 | 16.4 | 20.2 |
| Utilities, Fuels, and Public Services | 5.6 | 5.6 | 7.4 | 4.3 | 6.1 | 6.9 | 8.2 |
| Household Operations | — | 2.7 | 4.0 | 3.9 | 4.2 | 1.2 | 1.4 |
| Household Furnishings and Equipment | 3.5 | 4.6 | 4.1 | 7.1 | 5.2 | 4.8 | 3.9 |
| Apparel and Services | 14.7 | 17.6 | 10.9 | 11.6 | 10.3 | 8.4 | 5.2 |
| Vehicle Expenses | — | 1.2 | 5.9 | 12.0 | 13.4 | 22.9 | 24.7 |
| Public Transportation | — | 1.9 | 2.6 | 1.8 | 1.7 | 1.2 | 1.0 |
| Health Care | 2.9 | 4.7 | 4.0 | 5.1 | 6.6 | 4.7 | 4.0 |
| Entertainment and Reading | 2.7 | 4.5 | 5.6 | 7.1 | 6.7 | 7.2 | 7.3 |
| Personal Care | — | 1.0 | 2.1 | 2.3 | 2.9 | 1.3 | 1.1 |
| Education | — | .5 | .5 | .4 | 1.1 | 1.1 | 1.0 |
| Miscellaneous (Sundries) | 9.0 | 2.0 | 2.5 | 1.2 | 4.5 | 3.3 | 4.1 |

[1]Income values are derived from data for complete income reporters—consumer units that provided usable data on household income

Note: Dash indicates data not available

Source: U.S. Bureau of Labor Statistics

# Review and Outlook

John S. Austin
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**U.S. Economy**

The preliminary Gross National Product (GNP) estimate for the first quarter of 1990 was released in late April. That release showed an increase in real GNP of 2.1 percent at an annual rate. The rate was a full percentage point higher than the fourth quarter 1989's feeble increase of 1.1 percent.

The overall gain was spread across all major components of GNP. Of the $21.7 billion advance in real GNP, the consumption block accounted for $16.4 billion. A reversal from dismal fourth quarter auto sales helped spur the consumption of durable goods to an increase of $16.8 billion—more than accounting for the total rise in real consumption.

Nonresidential and residential investment both showed solid advances. Government spending advanced $5.7 billion, with two-thirds of the government gain coming from the state and local sector. Net exports increased moderately.

Only changes in inventories retarded the gains in real GNP. The rate of accumulation of inventories increased much more slowly than in the fourth quarter. Overall, however, we should view the slowdown in the accumulation of inventory as a healthy sign.

There was some concern that the fourth quarter inventory gains—mostly in automobiles—would cause a slowdown in manufacturing activity. Today's manufacturers put considerable effort into keeping inventories fairly lean. The preliminary release of GNP is subject to several revisions. The revisions can be sizeable.

It is somewhat disappointing that the press made so much of the gains in inflation that were noted with the GNP release. The Implicit Price Deflator (IDP) increased 5.7 percent in the first quarter, versus 3.2 percent in the previous quarter. The increases in inflation in the first quarter were widely known. The Consumer Price Index (CPI) and Producer Price Index (PPI) releases for the first quarter were available well before the release of the IDP. (These three indexes will be discussed in an article in a forthcoming issue.)

The reason for the advance in inflation has been discussed repeatedly. To reiterate—the extreme cold weather of December caused a severe problem in terms of fuel shortages on the East Coast and damaged many of the fruit and vegetable crops in Florida. That resulted in rapid rises in the PPI and CPI in January.

In February, the PPI stabilized, while the CPI continued to rise (based upon increases in apparel prices). In March, the PPI reversed direction and decreased moderately. The CPI continued to advance in March, again reflecting some increases in apparel prices, but also reflecting increases in mortgage rates. There were no surprises in the IDP releases.

The increases in first quarter inflation have relieved some of the pressures upon the Federal Reserve to ease the money supply. Instead, there are some analysts who believe that it is now time for the Fed to tighten the money supply. We may see some minor increases in short-term inter-

**Table I**
Income and Earnings in Nebraska*
($ Millions)

| | First Quarter 1988 | Second Quarter 1988 | Third Quarter 1988 | Fourth Quarter 1988 | First Quarter 1989 | Second Quarter 1989 | Third Quarter 1989 | Fourth Quarter 1989 | % Change 1989:IV vs Yr Ago |
|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | |
| Total Personal Income | 23,371 | 24,320 | 23,057 | 24,055 | 24,836 | 24,787 | 24,312 | 25,053 | 4.1 |
| Nonfarm | 21,390 | 21,723 | 21,966 | 22,377 | 22,740 | 23,088 | 23,297 | 23,701 | 5.9 |
| Farm | 1,980 | 2,598 | 1,091 | 1,679 | 2,096 | 1,699 | 1,014 | 1,352 | -19.5 |
| **Earnings by Industry**** | | | | | | | | | |
| Ag. Services, Forestry & Fisheries | 151 | 146 | 143 | 145 | 143 | 148 | 156 | 157 | 8.3 |
| Mining | 52 | 50 | 49 | 46 | 44 | 45 | 45 | 43 | -6.5 |
| Construction | 943 | 919 | 887 | 930 | 901 | 903 | 883 | 914 | -1.7 |
| Manufacturing | 2,354 | 2,377 | 2,407 | 2,425 | 2,483 | 2,492 | 2,499 | 2,491 | 2.7 |
| Nondurable | 1,160 | 1,180 | 1,196 | 1,199 | 1,214 | 1,245 | 1,260 | 1,243 | 3.7 |
| Durable | 1,195 | 1,197 | 1,212 | 1,226 | 1,269 | 1,247 | 1,239 | 1,249 | 1.9 |
| TCU*** | 1,608 | 1,625 | 1,627 | 1,601 | 1,656 | 1,650 | 1,643 | 1,667 | 4.1 |
| Wholesale Trade | 1,216 | 1,240 | 1,269 | 1,287 | 1,303 | 1,322 | 1,335 | 1,384 | 7.5 |
| Retail Trade | 1,543 | 1,583 | 1,607 | 1,633 | 1,666 | 1,679 | 1,708 | 1,732 | 6.1 |
| FIRE**** | 1,191 | 1,206 | 1,219 | 1,242 | 1,238 | 1,260 | 1,283 | 1,329 | 7.0 |
| Services | 3,401 | 3,520 | 3,603 | 3,692 | 3,787 | 3,876 | 3,999 | 4,118 | 11.5 |
| Government | 3,040 | 3,068 | 3,050 | 3,169 | 3,212 | 3,302 | 3,271 | 3,306 | 4.3 |
| Federal, Civilian | 473 | 476 | 480 | 492 | 509 | 513 | 522 | 524 | 6.5 |
| Military | 406 | 402 | 401 | 403 | 417 | 415 | 412 | 410 | 1.7 |
| State and Local | 2,161 | 2,190 | 2,170 | 2,274 | 2,286 | 2,374 | 2,337 | 2,373 | 4.4 |

* All data are seasonally adjusted at annual rates
** Earnings is the sum of wages and salaries, other labor income, and income earned by sole proprietors
*** Transportation, Communication, Utilities
**** Finance, Insurance, Real Estate
Source: Bureau of Economic Analysis, U.S. Department of Commerce

est rates over the next several weeks. Long-term rates, as reflected in mortgage rates, already have shown an increase. Some of the increase in long-term rates is related to international pressures to increase long-term interest rates.

The full impact of the rise in mortgage rates has not yet taken its toll on housing markets. While sales of new homes fell 5 percent in March (following a revised 1.5 percent drop in February), the first quarter GNP release shows the first gain in residential investment for several quarters.

The current picture is somewhat mixed, with increased mortgage rates suggesting that housing activity will drop. The drop in the housing area is especially disappointing, as we earlier had reasoned that increased housing activity was the one hope for breaking out of the slow growth syndrome this year.

Personal income continues to increase sharply. In both February and March, personal income was reported to increase 0.8 percent. These two increases also largely were affected by payments to farmers. Subtracting those payments, the increases were 0.6 percent in February and 0.5 percent in March.

Despite the rapid rises in personal income, consumers have been reluctant to expand their spending. In March, personal spending increased only 0.4 percent. There has been a slight increase in the savings rate.

Overall, the economy continues to muddle through 1990. Clear signs of a major change of direction or intensity have yet to emerge.

**Nebraska Economy**

Personal income by quarter for the state of Nebraska is given in Table I. Personal income in the state increased 4.1 percent in the fourth quarter of 1989 over fourth quarter 1988. That increase is in line with the 4.4 percent increase for full year 1989 versus 1988.

The personal income increase for Nebraska lagged well behind that of the Plains states in general and behind the U.S. as well. The Plains states showed an increase of 6.0 percent, while the U.S. increased 7.6 percent in 1989 over 1988. The major drag on Nebraska personal income was the farm income sector. For the year as a whole, farm income decreased 16.2 percent.

We must view these data with some caution. These are preliminary figures from the Bureau of Economic Analysis in Washington, D.C. For example, we suspect that the construction figure is especially pessimistic. Earnings from construction in Nebraska for 1989 show a decrease of 2.1 percent. Other data sources, such as F. W. Dodge, indicate that Nebraska had a good construction year.

The decrease in the farm income figures appears large. 1988, however, was a good agricultural year for Nebraska. While surrounding states suffered badly from the 1988 drought, Nebraska's total production was near normal levels. That production, combined with higher prices caused by the drought, gave Nebraska a solid increase in farm income that year. The decrease in farm income shown in 1989, thus, is simply a return to more normal farm income numbers.

The data on other Plains states indicate that Nebraska farm income simply fell in line with the Plains region. In Table I-A, data for the percentage changes in total, nonfarm, and farm personal income are given. The drop in Nebraska's farm income of 16.2 percent nearly matches the Plains state drop of 15.0 percent. The farm income data are highly variable. The range of changes shown in Table I-A runs from minus 73.1 percent in Kansas to plus 31.8 percent in Minnesota.

The gain in nonfarm personal income in Nebraska of 6.1 percent is the lowest of all Plains states except North Dakota. That position does not square with the job advances Nebraska experienced in 1989. Unfortunately, when it comes to the personal income data, the Bureau of Business

**Table II**
**Employment in Nebraska**

| | Revised February 1990 | Preliminary March 1990 | March % Change vs. Year Ago |
|---|---|---|---|
| Place of Work | | | |
| Nonfarm | 713,020 | 717,172 | 3.0 |
| Manufacturing | 95,861 | 95,527 | 2.1 |
| Durables | 46,848 | 46,752 | 1.2 |
| Nondurables | 49,013 | 48,775 | 2.9 |
| Mining | 1,287 | 1,441 | 10.1 |
| Construction | 22,486 | 23,325 | 7.8 |
| TCU* | 46,642 | 46,698 | 3.7 |
| Trade | 182,899 | 183,778 | 1.8 |
| Wholesale | 54,060 | 54,465 | 4.5 |
| Retail | 128,839 | 129,313 | 1.7 |
| FIRE** | 48,331 | 48,394 | 1.2 |
| Services | 170,594 | 171,959 | 3.8 |
| Government | 144,920 | 146,050 | 3.9 |
| Place of Residence | | | |
| Civilian Labor Force | 826,790 | 837,783 | 4.35 |
| Unemployment Rate | 2.8% | 2.8% | |

* Transportation, Communication, and Utilities
**Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

**Table III**
**Price Indices**

| | March 1990 | % Change vs. Year Ago | YTD % Change vs. Year Ago |
|---|---|---|---|
| Consumer Price Index - U* (1982-84 = 100) | | | |
| All Items | 128.7 | 5.2 | 5.2 |
| Commodities | 121.1 | 5.1 | 5.3 |
| Services | 136.9 | 5.3 | 5.2 |
| Producer Price Index (1982 = 100) | | | |
| Finished Goods | 117.0 | 4.3 | 5.1 |
| Intermediate Materials | 112.4 | 0.7 | 1.6 |
| Crude Materials | 105.6 | 2.4 | 4.6 |
| Ag Prices Received (1977 = 100) | | | |
| Nebraska | 163 | 1.2 | 1.2 |
| Crops | 129 | -8.5 | -9.4 |
| Livestock | 184 | 6.4 | 6.2 |
| United States | 150 | 0.7 | 2.2 |
| Crops | 128 | -5.9 | -4.1 |
| Livestock | 171 | 6.2 | 7.3 |

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics

Research is in a position of a data taker and not that of a data maker.

Employment in Nebraska in terms of numbers of jobs once again showed a sharp increase in March versus a year ago. Total jobs increased 3.0 percent. The leading sector was a small one, namely mining, showing an increase of 10.1 percent. The mining industry in Nebraska ranges from local sand and gravel operations to oil and gas production.

The next biggest field of activity was construction, with an overall advance of 7.8 percent. Once again, our doubts about the earnings figures on construction are reinforced. Other industries that showed a faster expansion than the state's overall rate were wholesale trade; government services; and transportation, communication, and utilities. The manufacturing sector lagged a bit behind the state, posting an advance in jobs of 2.1 percent.

In 1990, concern continues over moisture conditions that are far from ideal for our state's farmers. Subsoil moisture conditions recently were reported as 89 percent short and 11 percent adequate. Thus, subsoil moisture problems continue. April rains were spotty. Omaha recorded the driest April in 54 years.

**Table IV**
**City Business Indicators**
**December 1989 Percent Change from Year Ago**

| The State and Its Trading Centers | Building Activity* |
|---|---|
| NEBRASKA | 13.9 |
| Alliance | -57.6 |
| Beatrice | 95.0 |
| Bellevue | 28.1 |
| Blair | -74.8 |
| Broken Bow | 668.5 |
| Chadron | -28.2 |
| Columbus | -22.5 |
| Fairbury | -4.8 |
| Falls City | 45.2 |
| Fremont | 31.7 |
| Grand Island | -14.5 |
| Hastings | 94.5 |
| Holdrege | 354.8 |
| Kearney | 88.0 |
| Lexington | 109.8 |
| Lincoln | 17.6 |
| McCook | 153.9 |
| Nebraska City | 170.1 |
| Norfolk | 46.9 |
| North Platte | 3.9 |
| Ogallala | -20.2 |
| Omaha | 9.3 |
| Scottsbluff/Gering | 109.7 |
| Seward | 35.5 |
| Sidney | -52.2 |
| South Sioux City | -41.6 |
| York | 24.1 |

*Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

**Table I-A**
**Plains States Personal Income—Preliminary**
**(Percentage Change 1988 to 1989)**

| | Personal Income | | |
|---|---|---|---|
| | Total | Nonfarm | Farm |
| Plains Total | 6.0 | 6.7 | -15.0 |
| Iowa | 6.1 | 6.5 | -1.5 |
| Kansas | 3.5 | 6.3 | -73.1 |
| Minnesota | 7.7 | 7.2 | 31.8 |
| Missouri | 6.7 | 6.9 | -16.5 |
| Nebraska | 4.4 | 6.1 | -16.2 |
| North Dakota | 2.8 | 4.5 | -33.7 |
| South Dakota | 4.1 | 6.4 | -22.3 |

Source: Bureau of Economic Analysis

**Data for Figures I, II, and III and Table V were not available at press time.**

# Mailing List Update

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# Perestroika (continued from page 4)

might rise. In the long run, the Soviets may become significant competitors of farmers in Nebraska and elsewhere in the U.S.

**The Possibility of Backlash in the Nonmarket Economies**

Transition to free market policies will require a change in thinking for the persons of the nonmarket economies. Businesses that cannot function efficiently will go bankrupt, something unheard of in centrally planned economies. Layoffs will occur as companies attempt to restructure and produce more efficiently. Reforms will drastically change the way individuals live and work in the nonmarket economies. As citizens in the nonmarket economies come to realize that political emancipation will result not in immediate economic improvements, but in significant hardships with prospects for improvements only in the long run, there may be a backlash. The nonmarket economies generally do not have the established body of law and property rights that protect U.S. business from political turmoil; thus, there may be far more instability in doing business with the nonmarket economies. This uncertainty is compounded by other political problems, such as disputes among ethnic groups. For the most part, socialism has provided the populations of the nonmarket economies with cheap food and full employment. Economic reforms will remove the barrier between the individual and economic hardship—the result may be an outcry for a reversal of reforms. This reverse perestroika would inhibit trade with the U.S.

**Conclusion**

The implementation of perestroika will not occur rapidly; the attitudes of the citizens of the nonmarket economies have been conditioned by guaranteed employment, fixed prices, rationing, graft, and corruption. In order to restructure their economies, the populace of the nonmarket economies must be willing to adapt to the vagaries of a market economy. Before the U.S. becomes overzealous in the pursuit of new trading relations with Eastern Europe, the difficulties in restructuring the nonmarket economies must be considered. In particular, care must be taken to avoid granting extensive trade credit to these countries or otherwise subsidizing inefficient trade. A generation may pass before undistorted international trade provides both the U.S. and the nonmarket economies with mutual benefits that are significant.

For America to benefit from increased trade with the nonmarket economies, the U.S.S.R., China, and Eastern Europe must make their currencies convertible at market exchange rates, liberalize foreign investment, and establish economic institutions necessary for workable competitive markets. Although economic restructuring may improve the potential for trade between the nonmarket economies and areas such as Nebraska, there are many difficulties to be overcome before much growth in Nebraska exports to the nonmarket economies can be expected.

## State Economic Scoreboard

Change from same month one year ago.
See Review and Outlook on page 8 for more details.

| | State | Metro+ | Nonmetro |
|---|---|---|---|
| **Motor Vehicle Sales** (January) Constant $ | ↑ 6.5% | ↑ 16.6% | ↑ 0.8% |
| **Building Activity** (January) Constant $ | ↑ 10.2% | ↑ 9.3% | ↑ 11.4% |
| **Employment** (March) | ↑ 4.9% | ↑ 2.9% | ↑ 7.0% |
| **Unemployment Rate*** (March) | ↓ 2.8% | ↓ 2.6% | ↓ 3.0% |

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago.

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