

TABLE I
GLS ESTIMATES OF INCOME AND CONSUMPTION SMOOTHING (PERCENT)

| 1964-1990 | |
|----------------------------------|-----------|
| Capital markets (β_K) | 39 (3) |
| Federal government (β_F) | 13 (1) |
| Credit markets (β_C) | 23 (6) |
| Not smoothed (β_U) | 25 (6) |

Percentages of shocks to gross state product absorbed at each level of smoothing. Standard errors are in parentheses. β_K is the GLS estimate of the slope in the regression of $\Delta \log gsp^i - \Delta \log si^i$ on $\Delta \log gsp^i$, β_F is the slope in the regression of $\Delta \log si^i - \Delta \log dsi^i$ on $\Delta \log gsp^i$, β_C is the slope in the regression of $\Delta \log dsi^i - \Delta \log c^i$ on $\Delta \log gsp^i$, and β_U is the coefficient in the regression of $\Delta \log c^i$ on $\Delta \log gsp^i$. We interpret β_K , β_F , and β_C as the incremental amount of smoothing achieved at each level, and β_U as the amount not smoothed.