Changing Structure of District's Economy

By almost all measures, 1952 was a prosperous year for the Sixth District. Income from all types of economic activity was high, and from many types, higher than in any preceding year. Payments to individuals during 1952 were estimated by this bank to be between 6 and 8 percent greater than those estimated by the Department of Commerce for 1951.

A continued high rate of Government expenditures added substantially to total income. Manufacturing employment for the year averaged 2 percent higher than in 1951, and increased wage rates added further to total earnings. By engaging in a large program of plant expansion, the District's manufacturing industry helped raise construction contracts awarded during the year in District states to over 2.5 billion dollars. Income from trade, service, and financial activities responded in accordance with the total income growth.

Although some types of economic activity did not add significantly to total income growth in 1952, they were carried on at levels that compare extremely well with those of preceding years. Agricultural income, as discussed elsewhere in this issue, was about the same as in the preceding year and still accounted for about 11 percent of total District income. There was little gain in the value of residential contracts awarded in 1952, but the total still exceeded that for any preceding year except 1950.

Consumer spending and saving reflected the over-all growth in income. Department stores set a new record in 1952, selling an estimated 658 million dollars worth of merchandise, 8 percent more than in 1951. Total spending, however, did not rise in proportion to the total income growth. Consequently, individuals added over a billion dollars to their long-term savings, another new postwar record.

Activity of these economic forces was more than strong enough to offset what might have been influences leading to lowered income under other circumstances. Declining prices for many products important to the District's economy characterized 1952. Foreign demand for some of the area's products was off, as was reflected in decreased exports through District ports. Moreover, the District's two most important manufacturing industries from the standpoint of numbers employed—textiles and lumber—operated at comparatively low levels during the year.

The District pattern of a greater-than-national rate of income growth, established after the beginning of World War II, still held. Although there have been a few years during this period when District income has deviated from this pattern, in the last decade it has tripled, whereas income payments for the nation have expanded only two and a half times.

This income growth might be taken as conclusive evidence that the South, as represented by that part included in the Sixth District, is firmly set on a course that will ultimately lead to a per capita income equal to that for other parts of the nation. But there are students of the Southern economy who would point out that this period of income growth could be termed abnormal. It was a period when growth was stimulated by the unusually high defense expenditures of World War II and the Korean War. Something more basic is required to ultimately solve the South's problems. These students believe that a change in the structure of the economy is necessary. Such a change, it is generally agreed, would involve, among other things, less dependence upon agriculture, more industrialization—especially of the type requiring high capital expenditures per worker, and a greater ability of the region to supply its own capital. There may be, consequently, some value when reviewing the economic events of 1952, to weigh them in the light of their temporary or continuing influence on the region's economic development.

Influence of Government spending on District income still strong

Whether the contribution of Government expenditures is considered a permanent factor in the South's development, of course, depends upon the point of view about future Government expenditures. As in every other section of the United States and as has been true for a good many years, the influence of this item was strongly apparent in the District during 1952. Government payrolls alone account for over one-tenth of income in District states; other Government payments bring the proportion of income from Government sources up to around 20 percent.

With Government payments representing such a large part of total income, the 5-percent growth in Government employment reported for 1952 can have important effects. Payrolls for 1952 are estimated as about 10 percent greater than for 1951. Spending on additional facilities at military installations and state and local government spending on public works provided the stimulus for other income-creating activities not classified as Government. An outstanding example was the contract awarded for an atomic energy facility plant valued at 464 million dollars.

The question of whether civilian demand would offset a decline in Government expenditures that would likely come with a tapering off of the defense program would be, of course, a national problem. But because of the greater relative importance of Government payments to total income, a major cut in expenditures might become an even more serious District problem. An encouraging note, however, is that a large part of the growth in District income in 1952 can be traced directly to factors other than the expansion in Government expenditures.

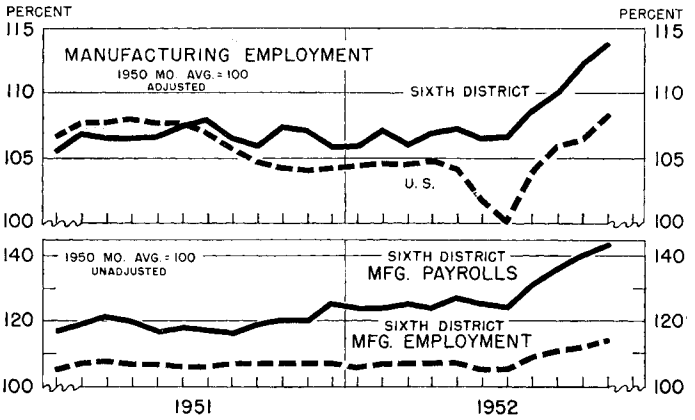
Manufacturing employment expands despite lower textile and lumber activity

That manufacturing contributed more to income growth in 1952 than Government spending did is evidence that significant changes have taken place in the economic structure of the area. In 1952, it was not the extraordinarily high defense demands for the products of the region's older and more important industries that raised

total manufacturing production; it was the demands for the products that the newer, and in many cases, expanding, industries were able to supply.

Had not the District's manufacturing industry changed in character, there is little doubt that declining prices for products important to the District economy would have more seriously affected total manufacturing activity than they did. In 1952, these wholesale prices continued the decline started in 1951, which was both longer and more

Manufacturing Employment and Payrolls



Manufacturing employment grew more in the District than in the United States, and payrolls expanded faster than employment.

severe than the one starting in 1948 and continuing into 1949. Changes accompanying the decline were also quite different. In 1949, manufacturing employment averaged 8 percent lower than in 1948; there was no decline in 1952. Total manufacturing payrolls in 1949 were about 30 million dollars lower than in 1948; in 1952 they exceeded those of the year before.

Falling prices for District products in both 1952 and 1949 reflected declining demands for textiles and lumber, which meant lower levels of activity in both years. It was not until after mid-1952, when textile prices began to advance, that textile workers were added at a greater than seasonal rate. It was not until November that District mills were employing more persons than a year earlier. District lumber employment averaged about 6 percent lower in 1952 than in 1951. Following a price advance in July, a slower rate of decline in employment seemed apparent, but at the end of the year employment was still below a year earlier.

Growth in other types of District manufacturing more than offset the textile and lumber declines. Total manufacturing employment continued to grow during the first half of the year and in the last half rose rapidly to the highest level since 1945. Some of the growth, of course, was directly induced by defense production demands, such as the 33-percent yearly increase in average employment in the number of transportation equipment workers, including aircraft employees. Expansion of ordnance production also explains some of the 16-percent growth in fabricated metals employment. Of greater importance, however, was the expanded employment in the paper and allied products industry and, during most of the year, in chemicals and allied products manufacturing.

Both the chemicals and paper industries have consistently been bringing new plants into production since the close of World War II. Although this expansion and that in other types of manufacturing have not brought dramatic changes in the District's economic structure when viewed year by year, the cumulative change has been substantial. In 1952, the District was reaping the rewards for investments made in the preceding postwar years.

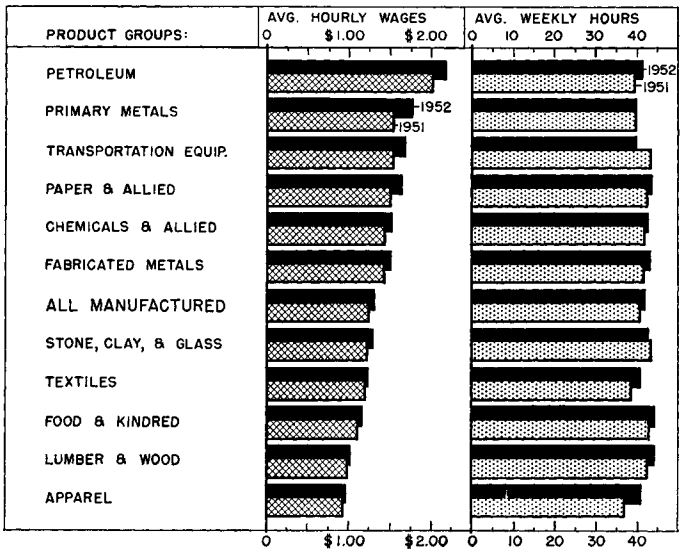
Industrial facility expansion contributes to basic changes

Considered in the light of the basic changes in District manufacturing, announcements made during 1952 of new industrial facilities and expansions take on added significance. Major projects of private concerns will cost, when completed, about 435 million dollars. This figure is based upon a tabulation of data contained in press and Government agency reports and from other sources. It excludes projects of less than one million dollars and those undertaken by the Government, such as the atomic energy facility. The tabulation does not include projects announced during 1951, which in the last half of that year amounted to 990 million dollars. Obviously, these figures are not a measure of construction actually started or of funds expended during the year, since construction of many facilities may extend over a period of several years.

Most of the new plants have at least two characteristics in common. They involve large capital investments per worker; and they will undoubtedly have a high wage scale, since similar plants are paying higher wages than the average rates for the District. They thus satisfy the criteria set up by some students of Southern problems as desirable characteristics of new industries from the standpoint of raising Southern incomes. The additional jobs provided by these plants will be well-paying jobs.

Practically all the 34 new chemical plants, which account for three-fifths of the proposed expenditures, involve large capital expenditures. Estimates made by the National Industrial Conference Board show that at present 16,000 dollars of capital investment are required for each worker in the chemical and allied products industry in the United

Average Earnings and Hours



Incomes from manufacturing in the District also rose, as a result of longer hours worked and higher wage rates.

States. As a rule, such large capital investment results in greater productivity and higher earnings per worker. In the latter part of 1952, for example, chemical and allied products establishments in the District were paying, on the average, $1.51 an hour, compared with less than $1.00 an hour in the lowest paid type of manufacturing.

The same general characteristics can be ascribed to the eight new projects for manufacturing electrical machinery, equipment, and supplies, which rank second in importance, measured by cost. These plants will cost approximately 56 million dollars. Judging from the average hourly earnings of $1.70 at similar plants throughout the country, they will undoubtedly provide well-paying jobs.

Other types of manufacturing plants announced during 1952 that require high capital investments and ordinarily pay high wage rates also include those in the petroleum, paper, fabricated metals, primary metals, transportation equipment, and ordnance industries. Similar District plants are now paying hourly wages ranging from $1.50 to $2.18 compared with the present average of $1.30 for all types of manufacturing. The proposed plants that are included in types of manufacturing now paying less than $1.50 an hour account for only 10 percent of the total announced expenditures in 1952.

That the ultimate results of the current industrial expansion will probably be very different from the expansion of World War II is seen readily from a few comparisons. In the World War II period, munitions, ships, and aircraft accounted for 64 percent of the total investment and 98 percent of the new employment. Because of the specialized nature of these facilities, most of the gains made during the war were dissipated in the postwar period. Although basic skills necessary for greater industrialization of the region were acquired in that period, almost entirely new investments of approximately the same magnitude were necessary to replace the jobs lost in these specialized war plants. It was not until last year, and chiefly because of these new investments, that total manufacturing employment regained its wartime level. The present expansion is for the most part, therefore, of a more permanent nature.

High savings create potential investment funds

Increasing per capita incomes in the South involves not only large capital investments for huge industrial plants, but also many small individual investments in small businesses which, when taken together, are of major proportion. Most of this capital investment must come from local sources, and is possible only if individuals living in the area are able to increase their savings.

Changes in total consumer buying generally followed the trend of department store sales, which was upward during the year, although there were some important exceptions. To a minor degree, the rising trend in consumer spending was in response to the termination of credit controls early in May and to the ensuing greater use of instalment credit. Charge account credit at department stores probably grew no faster than would be expected on the basis of expanded sales. Apparently, the greatest influence on expanded consumer spending was the growth of income. Spending, however, did not increase as much as income grew.

Because individuals in the Sixth District did not increase their spending as much as their incomes grew, they were able to add substantially to their long-term savings. In the first half of 1952, savings in the form of time deposits, savings and loan shares, life insurance equities, and United States savings bonds grew by almost 600 million dollars, a sum greater than in any whole year since 1946. Data for the last half of 1952 will probably show an even greater advance. Through October, for example, time deposits at member banks in District states increased 8 percent, and shares in savings and loan associations shot up 19 per cent. If this increase in long-term savings is indicative of a greater ability of the District to finance its own economic development, it was extremely significant.

A look at problems ahead

Although this brief review of Sixth District economic developments during 1952 has revealed many basic changes pointing toward continued economic development in the area, it has also revealed conditions that, if not of immediate concern, merit serious consideration. Many of the problems that have been characteristic of the District's economy in the past still remain.

Advances made during 1952 were made under conditions of extremely high levels of employment for the nation as a whole. The question of whether the basic changes in the region's economic structure are sufficient to cushion the effects of any adverse change in the national economy is as yet unanswered by experience. Income derived from the Government is still a larger component of total income than either manufacturing or agriculture. An answer to the question as to the effect of a sharp decline in Government expenditures on the District's economy is therefore of overwhelming importance.

Although the experience of 1952 has proved that there is less dependence upon agriculture as a source of income in the District, a substantial decline in agricultural income could seriously affect the District's economic activity. A continuing decline in the export markets of cotton and tobacco, for example, or a further decline in cattle prices, predicted in some quarters, could very seriously affect the total agricultural income.

Continued industrial expansion in 1952 was in line with the basic changes generally considered most desirable from the standpoint of raising income. Manufacturing activity has become more diversified and less dependent upon the fortunes of its textile and lumber industries than before. The new pattern, however, brings with it new problems. If the program of plant expansion tapers off, for example, will the new jobs created by the completed program offset losses from lowered construction activity? Does the introduction of new types of manufacturing to the District introduce new and unstable elements, or does greater diversification mean greater stability?

To pose these questions does not imply that the answers are necessarily unfavorable, because the District's development since the end of World War II has provided favorable answers to many equally serious questions. More than ever before, the District's economy is probably in a position to withstand any shocks that might develop from national economic changes.

CHARLES T. TAYLOR