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Federal Reserve Bank of Atlanta

Income in the South: The Last Ten Years and the Next Ten

SOUTHERNERS, as well as other Americans, found that they could buy just about as much with their dollars last year as they could the year before. In terms of 1959 prices, a dollar lost only nine-tenths of a cent in purchasing power during the year, compared with 3.5 cents in 1957 and 2.8 cents in 1958. Thus, the 7.2-percent increase in personal income in District states in 1959 measures fairly closely the actual increase in real income, or additional purchasing power.

Personal income was higher in 1959 than in 1958 in each District state, expanding most rapidly in Florida and Mississippi. Rates of growth in Tennessee and Georgia exceeded the national average, but in Alabama and Louisiana income probably rose a little more slowly. These comparisons are based upon preliminary estimates by the Research Department of this Bank, however, and they may be revised when final data become available.

The District's farm income rose, whereas the nation's declined, and its manufacturing was affected less by the steel strike than the nation's. About two-thirds of the increase in wage and salary income came from manufacturing and government payrolls, although wage income of other types increased without exception.

Since income in the District increased more in 1959 than population, per capita income grew. Moreover, the District's per capita income came a little closer to the national figure, averaging about 74 percent of it; in 1930 per capita income in this area amounted to only 50 percent of the national figure. If, as many persons believe, the South's major economic problem is to raise its per capita income to the national level, the year 1959 saw this problem a little nearer solution.

Changes in income were so strongly influenced by recovery from the depression of the 1930's and World War II, it seems reasonable to use the 1950's as a pattern for assessing future prospects rather than the entire 1930-59 period. The following discussion, therefore, explores some of the economic developments of the last ten years that have helped the South "catch up" with the nation.

The 1950's: A Decade of Change

Economic growth requires change, for if people are to become more productive and earn higher incomes they must do different things in different ways. By reviewing the economic changes that occurred in the Sixth District during the 1950's, we can acquire a better understanding of the forces that raised income in the area.

Migration and Population Shift One major change in the Sixth District was the 18-percent increase in population. Considering the high rate of natural increase in the South, this gain seems modest, when compared with one of 17 percent for the nation. In each District state except Florida, more people left than came in. As a result, population

in the five states with net out-migration increased only 8 percent, and the growth in the labor force was much smaller than it would have been otherwise.

Population changed in another way. There was a great shifting about of people from place to place within the District, especially from rural to urban areas. Estimates made by this Bank show that between 1950 and 1955 in 80 percent of the 448 counties in the District, more people left than came in; there is no reason to believe this trend has changed since then. Migration from rural areas in central and southern Georgia, Alabama, and Mississippi was especially heavy. So far as the District is concerned, the "population explosion" during the 1950's was in its metropolitan areas.

Farm Employment Declined The shift in population was symptomatic of the change in the way people earned their living. At the beginning of the decade 22 percent of the District's workers were working on the farm; the move to the cities and to other parts of the nation left only 11 percent of them making their living from farm work.

With the total number of jobs increasing and the number of farm workers declining, it is obvious that nonfarm employment in District states expanded even more than the total labor force increased. Since nonfarm employment generally yielded higher income, the average income per worker was raised. This change helped raise total income.

More Productive Work Industrialization, of course, provided some of the new jobs. Between 1950 and 1959, manufacturing plants, many of them new ones, added 242,000 manufacturing workers to their payrolls. Because manufacturing jobs averaged higher incomes than other types of work, moreover, income grew more than is indicated by the increase in employment. By 1959, manufacturing payrolls were providing 25 percent of total income.

We can be misled by concluding that higher incomes came solely from increased industrialization. Manufacturing employment in 1959 made up only 26 percent of total nonfarm employment, and more new nonfarm job opportunities were made available in construction, transportation, communication and public utilities, finance, trade, service, and government occupations than in manufacturing. In District states, wage and salary income from governments was about as important as that from manufacturing. Growth in the former in the 1950's came more from the growing payrolls of state and local governments than of the Federal Government.

Consumer Demands Changed During the 1950's, consumers changed their demands both for the things they bought directly and for the things they bought indirectly through their governments. Higher incomes, of course, meant that District consumers could buy more. But as their incomes increased, their demands changed because they could afford different things and because more of them lived in cities. The growing population and urbanization directed demands to state and local governments for more and better educational services, better roads and streets, and other services required in urban communities.

Capital Investment Greater The changes discussed so far suggest another major change—an increase in capital investment by private businesses, by consumers, and by governments. Expenditures for manufacturing plants and equipment in District states in 1950-57 totaling $5.6 billion, the $1.0 billion spent by state and local governments for schools in the same period, and the nearly one million new housing units started in urban areas between 1950 and 1958 are typical.

Shifting toward more productive manufacturing jobs yielding higher income required, moreover, that capital investment per worker be increased. Average capital investment per worker in the chemicals and allied products industry, one of the District's growth industries and one that yields high income per worker, amounts to $17,000, according to the National Industrial Conference Board. On the other hand, capital investment per worker in the textile industry requires $8,000. In the District, value added per worker for the former industry averaged $14,000 in 1957; for the latter, $4,500.

Greater capital investment not only made it possible to provide more workers with more productive and better paying jobs, it also created jobs; it was one reason why construction activity contributed so much to total income.

Forces Behind the Changes

Knowing the major economic changes that went along with economic growth in this part of the South in the 1950's, we now ask, Why did these changes occur? First, we note that the 1950's was a decade of general economic expansion. Gross National Product, that useful figure summarizing total output of the nation's goods and services, was about 45 percent greater at the end of the decade than it was at the beginning even after allowances for rising prices. Personal income, the measure we have been using for economic growth in the South, grew correspondingly. The close resemblance of the trend in growth of personal income in the nation to that in the District, shown in the accompanying chart, suggests that conditions that encourage income growth in the nation also encourage income growth in the South. The rise in District income, however, has been just a little steeper than that in the nation. This leads to another observation: When the nation's income expands, the South's share of it increases.

This relationship was demonstrated in the 1950's, when a generally prosperous United States created job opportunities outside the South, which many Southerners took advantage of. Whatever we may think about the loss of production potential to the South because of the loss of some of its workers, the result was that the South itself had to provide fewer jobs for its expanding labor force. Per capita income for those remaining, therefore, was probably higher than it otherwise would have been.

During the 1950's, the nation's agriculture, because of technological and scientific developments, was going through what has been termed an "agricultural revolution." As a result, more could be produced with fewer workers. Some workers were pushed off the farm because they were not needed; others were pulled away by job opportunities elsewhere.

Economic expansion in the 1950's also stimulated the shift within the South to more productive types of nonfarm employment. National economic growth provided markets for Southern products; it created demands for the physical and human resources the South had available, and it made possible the capital investment needed to set them to work. This part of the South had the abundant water supplies, rapidly growing trees, petroleum resources, and an underemployed labor force that were needed to produce the chemicals, paper, and petroleum products for the nation's economic expansion. As these were put to work, Southerners found more productive and better paying jobs, and incomes rose.

Southerners in District states made some of the required capital investments themselves. In the ten years between 1947 and 1957, for example, they had increased the assets of commercial banks, savings and loan associations, legal reserve life insurance companies, and credit unions from $11 billion to $24 billion. Deposits at commercial banks in 1950 amounted to $8.9 billion; in 1959 to $16 billion. Yet, financing all of the South's capital investment needs was a task beyond their financial resources.

Since the 1950's was a period of heavy capital investment for the United States, some funds from other areas spilled over into the District. Many manufacturers with nationwide operations found they could not meet the demands of the expanding economy with their existing productive facilities. They had to expand. Some of them chose this part of the South in which to build their new plants both because

markets for their products were growing here and the South had the physical and human resources needed to operate the new plants.

The nation's large financial institutions also found their assets growing as many individuals entrusted to them the savings they accumulated out of their rising incomes. Some of these funds were attracted to the South to finance the building of homes and schools, roads, and other public facilities and to help finance business ventures. It required the combined efforts of Southerners and other investors to supply the capital funds needed for growth.

Economic growth cannot be explained solely in terms of capital investment and productivity. There must be men who are able to recognize economic opportunities, apply technological and scientific developments, assume leadership, and risk their funds in what they hope will be productive enterprises. There must be a labor force that can acquire industrial skills and adapt to changes. Some of the workers must be able to learn not only the highly technical productive processes needed in modern industry but also the professional skills required by present day society. Economic growth also requires a society that encourages rather than resists changes. Thus, one key to economic growth is the ability of people to change. The record of the 1950's shows that Southerners have been able to accept and adapt themselves to change.

The 1960's: Another Decade of Change?

If we look back to 1950 and remember how little we knew about what would happen in the next ten years, we are impressed with our limitations in foretelling what will happen in the 1960's. How wrong we would have been had we assumed the 1950's would be like the 1940's! Projecting economic changes in the 1960's on the basis of what happened in the 1950's, therefore, may lead us to erroneous conclusions unless the same kinds of changes occur in the next ten years.

On the basis of past trends, however, it is relatively easy to project personal income in the Sixth District for 1970. By that time, if the District's per capita income continues to increase in proportion to the nation's as it has in the last ten years, it should reach 77.4 percent of the national average. If the nation's per capita income increases as implied by the National Planning Association's "judgment" projection, therefore, per capita income in the District in 1970 should be $2,250 in 1959 prices.

An increase in the District's per capita income measured in dollars of constant purchasing power of approximately $650 between 1959 and 1970 would indeed be a good record for economic growth. But can we rely at all on any such projection derived by such a mechanistic method? We begin to have serious doubts when we recall the major changes during the 1950's that established the pattern we used in making the projection.

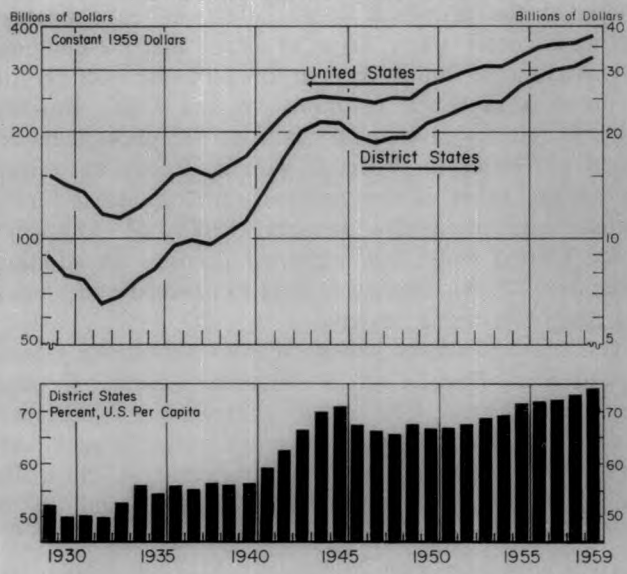
Will the rest of the nation continue to absorb part of the South's expanding population or will jobs have to be found here for all who will enter the labor force in the 1960's? Is there no limit to the move away from the farm to nonfarm jobs? Can we keep attracting such a large part of the nation's capital investment to this area? Will the South's labor force be ready to meet the challenge of an increasingly technological and scientific productive process?

Partial answers to these and other questions must be found before we can make even a tentative projection of the future. Future issues of this *Review* will go into these matters more thoroughly than has been possible here.

CHARLES T. TAYLOR

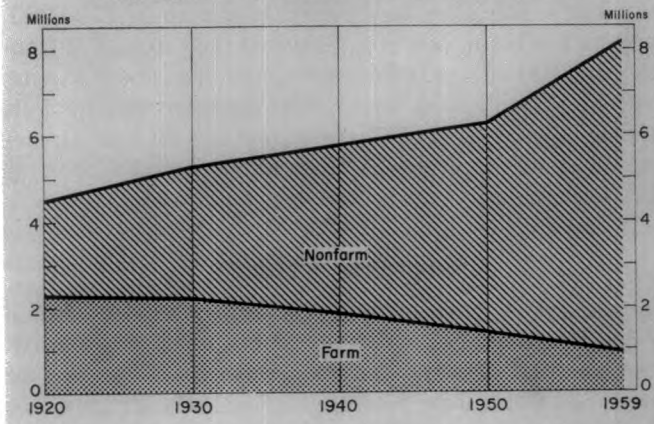
Personal Income, 1929-59

District States and United States



Personal income in District states is growing faster than it is in the nation. Thus, per capita income in the South is a little closer to the national average. At 67 percent of the national figure in 1950, it reached 74 percent in 1959.

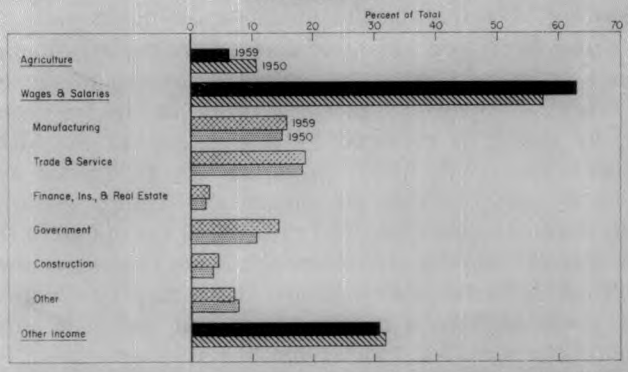
Employment, District States, 1920-59



To achieve the income growth meant providing jobs not only for workers added to the labor force but for those who left the farm as well.

Sources of Income, District States

1950 and 1959



As income grew during the 1950's, the relative importance of different sources changed. Not only did personal income from manufacturing become more important, but that from trade, service, government, finance, and construction as well.