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Monthly Review

Southern Income Growth and a Changed Economic Environment

A review of income developments during 1961 in this part of the South demonstrates once again how closely they are tied to those throughout the United States. When early last year personal income in the nation began to recover from the effects of the 1960-61 recession, so did income in this area. By the end of 1961, according to preliminary estimates, income in both the nation as a whole and in the six states served by the Federal Reserve Bank of Atlanta had increased enough to bring the year's total to an amount greater than 1960's. In the United States, personal income rose 3.6 percent; in District states, 3.9 percent.

The resemblance between the pattern of income change in the nation and in the South is probably more significant than minor statistical differences. Minor differences could be accounted for solely by the nature of the data. The figures are estimates and, like all estimates, are subject to some statistical variance. Moreover, both the state estimates for 1961 made by this Bank and the national ones made by the United States Department of Commerce are based on partial and preliminary data and are subject to change when more comprehensive data become available.

The similarity between the rate of income growth during 1961 in this part of the South and in the nation means, of course, that at best this area made no immediate progress in solving the long-range problem of raising its income to the national level. The preliminary estimates

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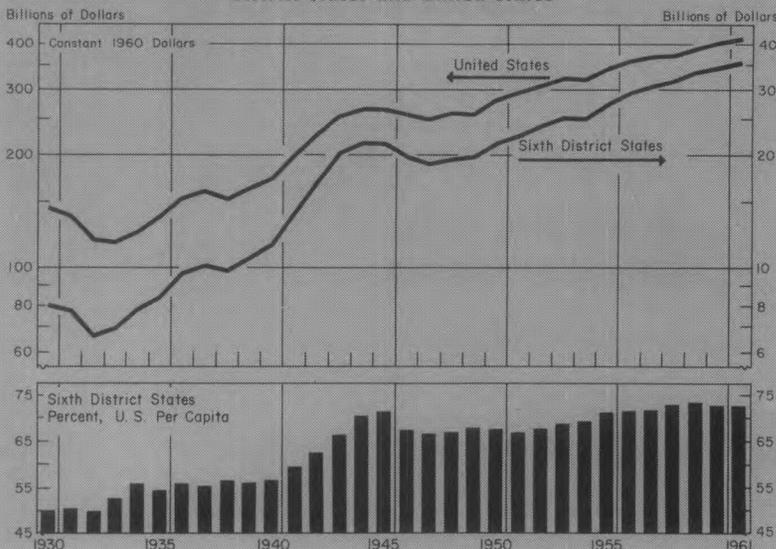
DISTRICT BUSINESS CONDITIONS

SIXTH DISTRICT STATISTICS

SIXTH DISTRICT INDEXES

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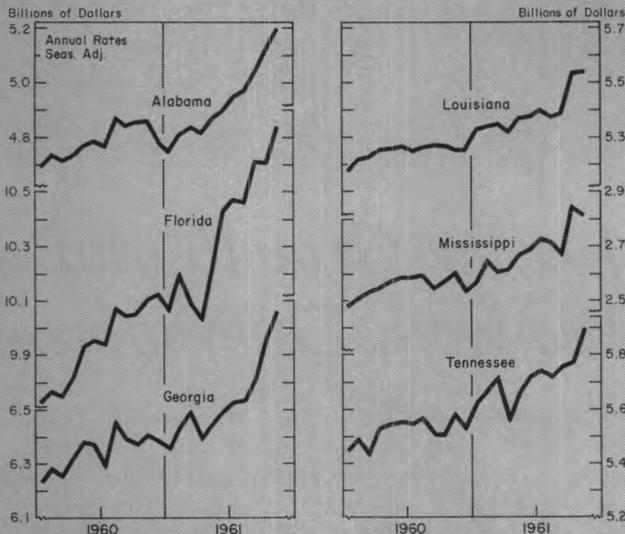
**Personal Income, 1930-61
District States and United States**



With economic recovery, personal income expanded during 1961 in District states. Per capita income as a percent of the nation's was the same as in 1960, according to preliminary estimates.

Personal Income, District States

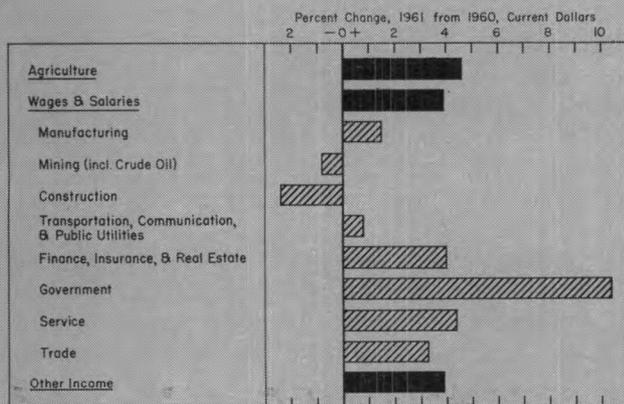
1960-61



Soon after the first quarter of 1961, personal income in each state began to increase and by the end of the year had set a new record.

Sources of Income, District States

1961 from 1960

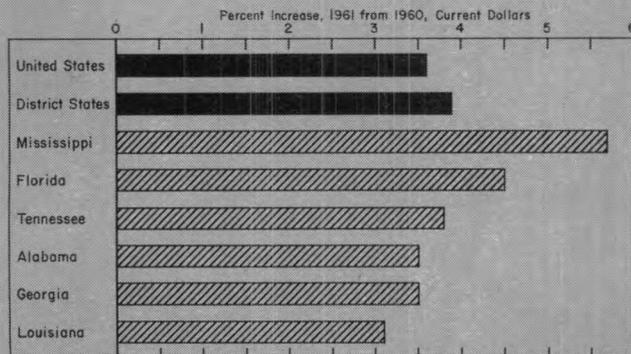


Increased income from agriculture contributed to income growth in 1961, and the rate of increase exceeded that of total wages and salaries from nonfarm sources.

Personal Income

District States and United States

1961 from 1960



Because the economic structures of the states are different, the impact on income of general economic changes varied from state to state.

indicate that per capita personal income in District states in 1961 was 72.8 percent of the United States average, the same percent as in 1960, and a little lower than the figure for 1959. The District in the last two years, therefore, seems to have dropped back a little.

Does this mean that the long period of improvement that raised per capita income in District states is over? Not necessarily. This is not the first time that per capita income has declined as a proportion of the national total. Between 1930, when Southern income was about 50 percent of the national average, and 1959 the ratio declined eight times, and each time the drop was subsequently followed by a resumption of the "catching up" process.

National Influence on Regional Change

Income developments in 1961 in this area are more the product of national economic changes than of any loss of the "magic touch" of economic growth. Because of the area's economic structure, the impact of some of the national changes was probably greater here than elsewhere.

Chiefly responsible for the failure of personal income to increase more than it did were an only moderate expansion in wages and salaries paid to manufacturing workers in 1961 and an actual decline in those paid to workers in the construction and mining industries (including petroleum). Although manufacturing employment throughout the nation and in District states had picked up by the end of 1961, it had not reached its pre-recession level. Personal income from manufacturing payrolls was higher in 1961 than in 1960 only because the average of wages and salaries per worker was higher. Although employment in two of the District's most important industries, textile and lumber manufacturing, recovered somewhat in 1961, it averaged less than in 1960.

The decline in construction workers' wages and salaries reflected chiefly the softened state of the home building industry, a situation that prevailed generally throughout the nation. For many years, construction had been the source of a greater share of personal income in this District, especially in Florida, than elsewhere. The slump, therefore, hit the area harder than it did some other parts of the country.

More than offsetting these weaknesses were favorable income developments in 1961. The most important were increased wages and salaries from Government, trade, and services activities. Here too, District developments were following the national pattern. The District's agriculture also contributed substantially to the slightly improved income in 1961. Production of both crops and livestock was greater in 1961 than in 1960. Average prices received by farmers were up slightly, and higher receipts were supplemented by somewhat greater Government payments for soil conservation and crop diversion programs.

Consequently, no exotic "made in the South" explanation is required to explain this area's pattern of income growth in 1961. Standard economic analysis is adequate. Income developments here were influenced chiefly by the pattern of national change and the economic structure of District states.

The Process of Southern Economic Growth

The pause in the "catching up" process is leading many Southerners to reexamine some of the general principles that have accounted for Southern income growth in the past. As they do, they are reminded that the success of the South in catching up with the rest of the nation so far as income is concerned depends chiefly on two things: how well the region's economic structure fits into the pattern of current national economic change, and whether or not the region has the ability to adapt itself to this pattern.

During most of the postwar period, the pattern of national economic change was favorable to economic growth in the South, and the area succeeded in adapting to it. From the end of the war through 1951 and, to a lesser extent, through 1955, demands pressed heavily against capacity. The so-called "sellers market" resulted not only from accumulated demands at home, but from the inadequate productive capacity of a great part of the rest of the world. To meet these demands American producers invested heavily in plants and equipment to increase output.

The South was in an excellent position to capture a growing share of this industrial expansion. Sharply reduced requirements for farm labor provided a source for an expanded industrial labor force; in some cases the region had the natural resources that were needed in the expansion. As a result, a substantial portion of the nation's industrial expansion took place here. The construction involved raised incomes in many areas of the South, and when the new industrial plants were completed additional manufacturing jobs became available. The process of income growth, of course, involved increased personal income from many other sources. In most cases, however, the stimulus can be traced to the stepped-up markets of the postwar period for the natural resources and manpower that the South possessed in ample abundance.

The Changed Economic Environment

But this economic environment, so favorable to the South, gradually changed. As capital investments were made, productive capacity began to catch up with demand. Industrial capacity increased abroad, and productive efficiency improved there. More and more, capital investment was aimed at improving productive efficiency rather than at expanding output. Although the United States' manufacturing output continued to increase, except during brief periods of recession, after 1953 this greater output was produced with fewer workers. Economic expansion continued, but it was of a different sort than in earlier postwar years.

Is this different national pattern of economic change more or less favorable to economic growth in the South? To answer this question, some Southerners are beginning to look more closely into what the nation's future pattern of growth is likely to be.

New and better job opportunities will be required to achieve Southern economic growth. Judging by recent trends, there are likely to be more new job opportunities throughout the nation for those who work with their minds than for those who work solely with their hands. If

the pattern of the immediate past continues, the greatest growth in employment will be among professional and technical workers and may take place outside manufacturing itself. Within manufacturing, practically all the employment growth in the 1950's occurred among non-production workers, such as clerks, typists, technicians, accountants, managers, and scientists.

For business, the changed economic environment means a sharpening of good old-fashioned competition. This in turn often means a shift in policies and an emphasis on cost-reducing practices. In some cases, attempts to get out from under the profit squeeze stimulate capital expenditures, cause the closing of inefficient plants, and lead to plant consolidations. Sometimes these attempts arouse interest in plant relocation whenever this might result in cost savings. Under these circumstances, some communities find that job opportunities in manufacturing are increasing, despite the relative stability in the total number of manufacturing jobs.

Southerners are discovering that since manufacturing employment is no longer expanding vigorously, communities all over the country are stepping up their activities to retain or capture whatever manufacturing expansion is taking place. Businessmen are found to be using different standards for plant location. Some Southern communities are discovering that the special inducements, such as tax concessions or provision of plants and other facilities financed through public credit, that once were enough to swing decisions in their favor are now being matched or bettered by similar offers from all over the country. If they are to obtain the kind of manufacturing plants they want, they also have to offer such inducements as high labor skills, research opportunities, and educational facilities, in addition to the standard attractions of nearness to markets, good transportation, and a potentially large labor force.

In this period of heightened competition for a share in the nation's economic growth, Southerners are wondering what their region's future will be. Many of them conclude that the area will have an increasing share only if it stands ready to accept the inevitable changes and prepares its labor force for the kind of economic environment that apparently will be characteristic of the future.

The South has demonstrated in the past that change is possible. Previous efforts toward improving education are beginning to appear in the form of a better trained labor force. With the renewed concern for improving the South's educational systems, especially higher education, and an extension of technical and vocational training in many areas, the South is apparently preparing itself for whatever the future may bring.

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The December 1961 REVIEW contained an article entitled "Southern Banking Adapts to Changes in Population and Income." Detailed statistics relating to this article may be obtained upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta 3, Georgia. These statistics include tables relating changes in population to changes in number of bank offices and bank deposits, as well as tables showing changes in the banking structure, 1950 and 1960.