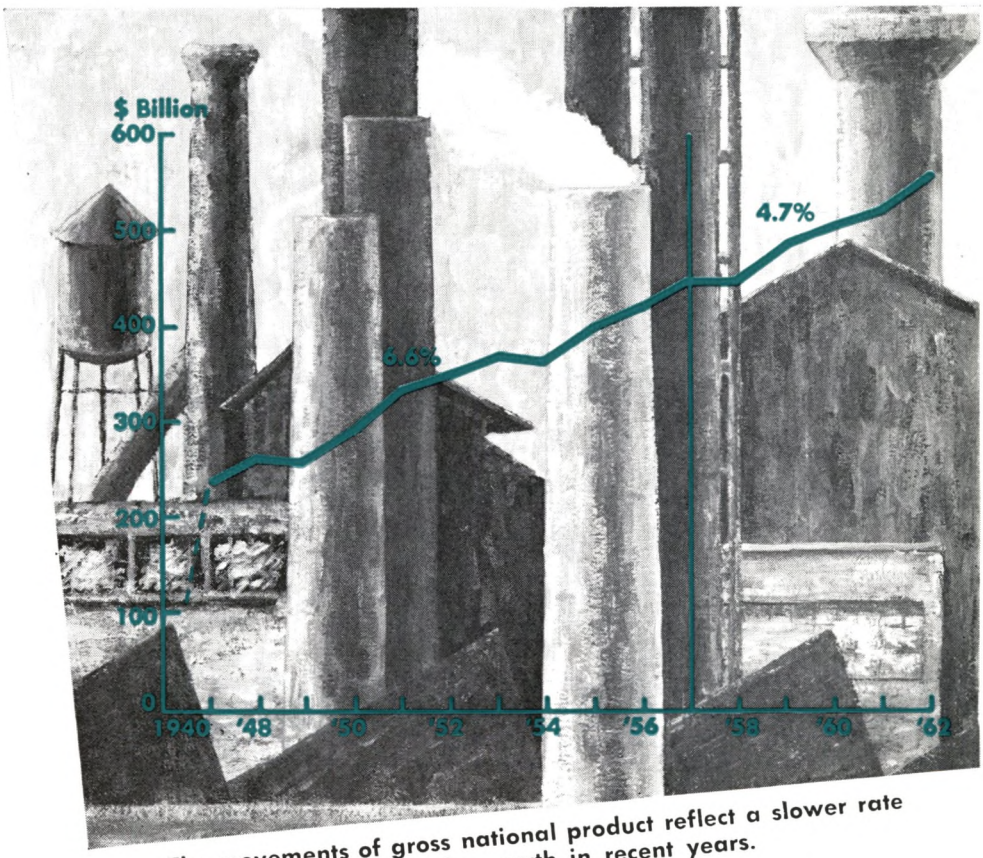
MONTHLY REVIEW



The movements of gross national product reflect a slower rate of economic growth in recent years.

FEDERAL RESERVE BANK OF RICHMOND AUGUST 1963

MAJOR TRENDS IN THE POSTWAR ECONOMY–I

In recent years the performance of the American economy has been subjected to growing scrutiny and criticism. This has been especially true in recent months as debate over the need for a reduction in Federal taxes has intensified. Often the discussion of economic performance has concentrated on certain segments of the economy or on certain time periods. Perhaps, therefore, the present may be a good time to take a long and broad look at the behavior of the whole economy in the postwar period. Such is the purpose of this and subsequent articles in this series.

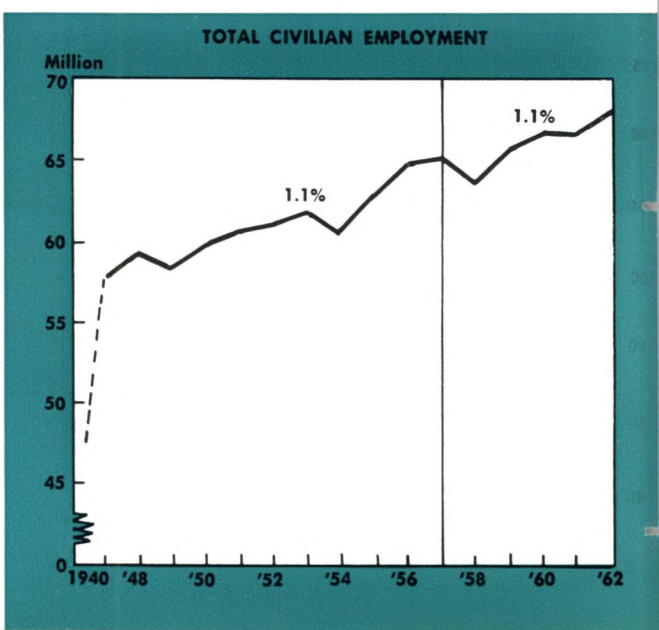
The articles will examine a number of statistical series which show the behavior of the more important sectors of the economy. The present article will cover several of the series and the remainder will be discussed in the next article. Following that, some consideration will be given to what appears to be the more significant developments and the more troublesome areas of the economy, with an attempt to provide some explanation of why the problems have developed. One additional purpose of this study is to afford some background and perspective for short-range forecasting.

It is difficult to select a small number of statistical series which will accurately measure the performance of the economy as a whole and at the same time indicate developments in the major sectors of the economy. All of the major series are interrelated and changes in any one of them are to some extent both cause and effect of changes in other series. Twelve major series have been selected and they perhaps reflect fairly well the behavior of the more important sectors of the economy. These are data which are well known and readily available; no attempt has been made to refine or adjust them since the purpose here is to paint the picture in broad strokes. The year 1947 was chosen as the starting point since 1946 was too much affected by the transition from the war to be representative. In computing rates of growth the whole period was divided into two parts, with the line of division drawn at 1957 since that was about the time when most of the series showed a distinct change of trend. The annual rates of growth were computed by converting the actual data to logarithms and then determining a line of best fit for those values. This method avoids giving undue weight to extreme or nontypical values which might occur in terminal years. On the charts the growth rates appear as superscriptions immediately above the lines representing the data.

The original data used are either official index numbers or current dollar values, unadjusted for price changes. To indicate the change from prewar conditions, most of the series include a 1939 or a 1940 figure as a reference point.

GENERAL ENVIRONMENT As a preliminary, it may be helpful to note briefly the broad and general characteristics which have marked the economy since World War II. First, it is important to note two developments which did *not* occur. Contrary to all past experience following major wars, there was no broad, general deflation with its accompanying depression. The late Per Jacobsson thought that this was due largely to the fact that during the war wage and price controls were more effective than in earlier wars and to the very high degree of liquidity, relative to wages, which prevailed at the end of the war. Also, another thing which did *not* happen was a broad, general reduction in Federal taxes such as had marked other postwar periods.

Second, population recorded a vigorous growth, the annual increase usually falling between 1.7% and 1.9%. Over the whole period population increased by a little more than 30%. Third, we inherited from the war a greatly swollen money supply and tremendous amounts of other liquid assets, both of which received another boost during the Korean War. In the past ten years the money supply expanded quite slowly as the economy "grew up" to the initial oversupply. Fourth, residential mortgage and consumer credit increased by about $200 billion during



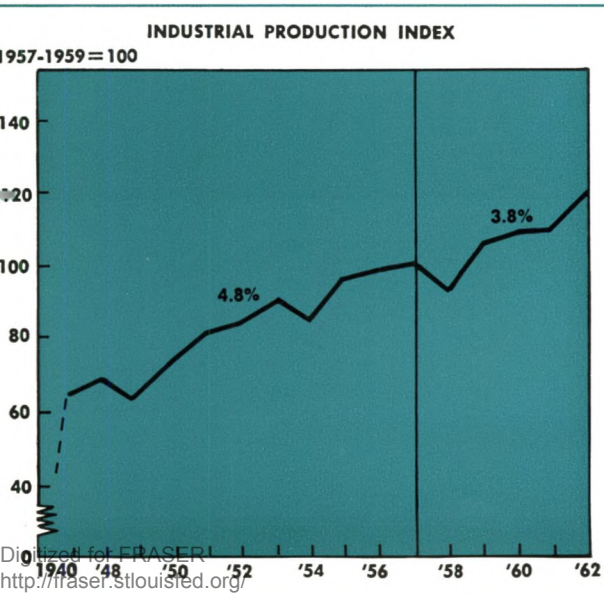
the period; this amount supplemented consumer incomes in the purchase of homes and durable consumer goods. Fifth, at the beginning of the period there was an enormous accumulated demand for homes and durable goods, built up during the Great Depression and the war. During the period that backlog was worked down steadily and fairly rapidly. Sixth, the period was marked by the continuation and strengthening of the practice of granting annual wage increases. Seventh, there was a steady and rapid rise in the costs of government caused by the Korean War, the cold war, rapid urban growth, enormously increased needs for schools and highways, greatly expanded welfare programs, and many, many other factors. Finally, foreign competition increased rapidly, especially after 1958, due primarily to rapid industrial growth in Europe and Japan.

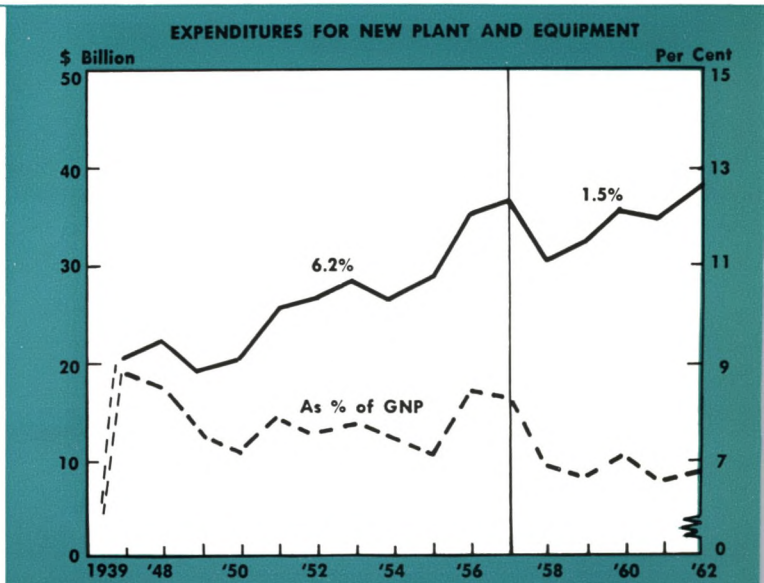
A THEME In a nutshell, the American economy since World War II has functioned at a high and rising level of production and consumption. It has been by a considerable margin the most productive economy the world has ever known. It has been marked by four recessions which became progressively shorter; they have also become milder except for the increase in unemployment. The rate of growth received a boost from the Korean War but has slowed significantly in recent years.

GROSS NATIONAL PRODUCT The fluctuations of gross national product outline the behavior of the economy as a whole and provide a backdrop for the examination of the other series, many of which are components of GNP. The chart on the cover shows the rise of GNP over the whole period and the progressively milder recessions. On an annual basis the first two recessions showed only very small declines; in the last two there was no decline at all but only a slowing in the rate of growth. In the past five years the annual rate of growth was nearly a third lower than in the previous ten years. Over the whole period, GNP grew by 136%. Expressed in terms of constant dollars, the growth was only 67%, indicating that about half of the growth in current dollars was due to rising prices.

EMPLOYMENT AND UNEMPLOYMENT Unemployment emerged during the period as perhaps the economy's most persistent and most difficult problem. Over the period the civilian labor force increased by almost 20% while population rose by more than 30%. The lag in the growth of the labor force relative to population was due primarily to a growing proportion of children and the more years they spent in school. But civilian employment grew by only about 18%. The growth rate was low before 1957 and did not rise subsequently, despite a substantial increase in the number of people entering the labor force. As a consequence, both the number of unemployed and the rate of unemployment have shown a persistent tendency to rise. Since 1957 the number of unemployed has grown at a rate more than three times the rate in the previous period. This is one of the trends which will be examined in greater detail later, with an attempt to isolate some of the causes.

INDUSTRIAL PRODUCTION The index of industrial production is a broad measure of physical production in the economy and as such is affected less by changing prices than many of the other series. It is a relatively volatile index, but even so, the recession of 1960-61 appears as only a flattening out rather than a decline. The total increase in this index over the whole period was 80%; in comparison with an increase in population of 30%, this gives some indi-





cation of the increase in per capita consumption of physical goods. The decline in the rate of growth in this area after 1957 was not as large as it was in some other areas or in GNP. In manufacturing, which accounts for the great bulk of industrial production, employment increased only about 8%. Compared with the increase of 80% in output, this reflects the great strides which have been made in increasing productivity in this field. It also suggests one of the major causes of our unemployment problem. The burden of providing employment for nearly all of the increase in population has fallen upon the nonmanufacturing area. This has been made especially difficult because of the tendency for wages in the nonmanufacturing fields, where increases in productivity have been low, to rise at the same rate as wages in manufacturing, where increases in productivity have been high.

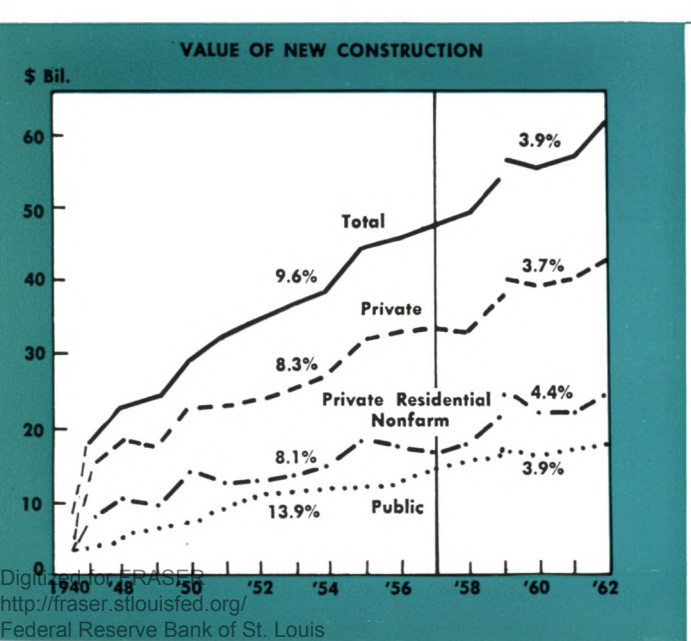
NEW PLANT AND EQUIPMENT Expenditures for new plant and equipment constitute by far the largest component of private investment. As such they serve as a good indicator of the vigor of economic growth, especially in the industrial area. Along with industrial production, they grew about 80% over the whole period, but their rate of growth was considerably higher in the first period and very much lower in the second period. As the chart shows, these expenditures reached a peak in 1957 and did not regain that level until last year. As a per cent of GNP, plant and equipment expenditures fell significantly over the period, indicating that this important part of private investment was not keeping pace with the production of the economy as a whole.

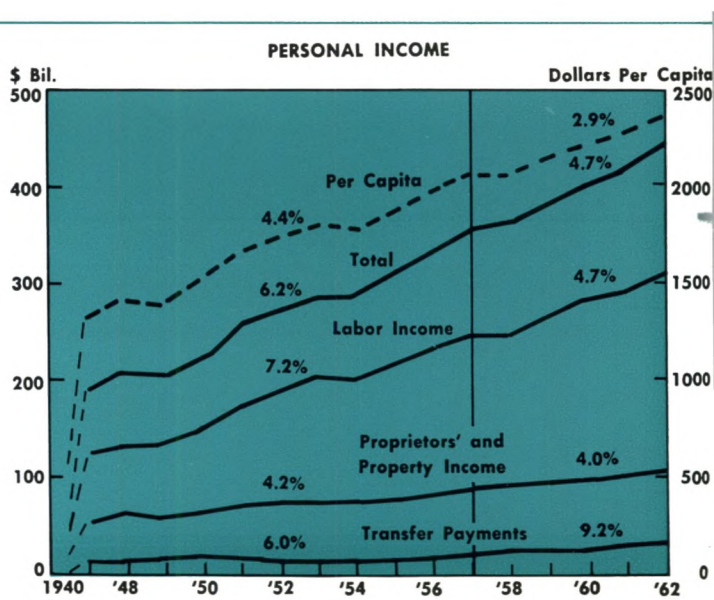
VALUE OF NEW CONSTRUCTION This series covers nearly all types of new construction and major alterations—residential, industrial, commercial, and governmental. The industrial and commercial portions overlap the expenditures for plant and equipment discussed above. Residential construction is the largest single component and it, together with governmental construction, constituted about 70% of the total last year. In recent years total construction has made up more than 10% of GNP, which gives some indication of its importance.

Activity in this area was very low during the Great Depression and World War II, so that an enormous accumulated demand had been built up by the end of the war. This was further accentuated by the rapid population growth of the past 20 years and by the high rate of urban growth. Especially in the residential area, activity has been further stimulated by the extensive new facilities for financing home building. Pushed along by all these forces, construction activity scored a greater advance than any other major series considered here. The total gain was 241% and the annual rate of growth in the first period was nearly 10%. The sharp drop in the annual growth rate since 1957 reflects the working down of the accumulated backlog and a small drop in the rate of family formation.

The behavior of the major components of this series indicate the rapid increase of construction activities by public bodies during this period. Over the whole period the value of total public construction increased by 436% compared with an increase of 197% in total private construction and 231% in private nonfarm residential construction.

PERSONAL INCOME Personal income, on the one hand, shows the compensation individuals receive for participating in economic activity and, on the other, is a fairly good indicator of the flow of consumer





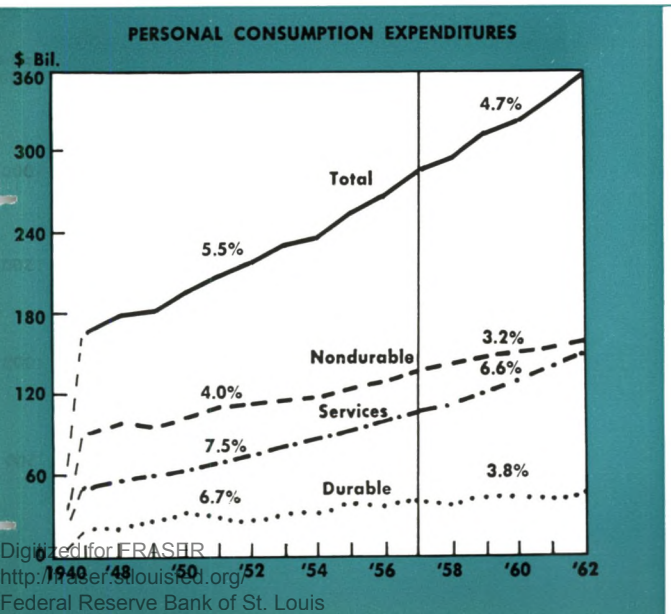
purchasing power available for spending. It increased quite steadily throughout the period, showing a small decline in only one year, and registered a total gain of 130%. The increase has been so steady that, except for 1949, it is difficult to distinguish the recession years on the chart. The annual growth rate for personal income for the first ten years was slightly less than that for GNP; in the past five years the two rates were identical.

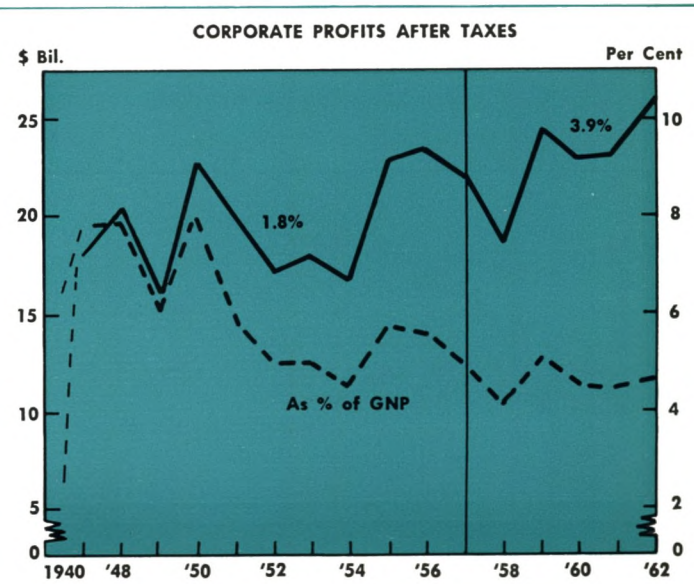
Per capita personal income shows a considerably slower rise than the total because of the steady population growth. Over the whole period it increased by 78%, which was a little more than twice the increase in the index of consumer prices.

The different behavior of the major components of personal income indicate how the distribution of income has been changing. Compared with an increase of 130% for the total over the whole period, labor income increased by 146%, proprietors' and property income rose by 91%, while transfer payments had the largest increase of all with 193%.

PERSONAL CONSUMPTION EXPENDITURES The figures for personal consumer expenditures show broadly what consumers did with their incomes. Among other things, they reflect the sharp shift toward services which, in the second period, grew nearly twice as fast as expenditures for goods, although, as noted earlier, they did not grow fast enough to compensate for the increase in the labor force and the slow growth of employment in manufacturing. During the whole period the total more than doubled. Again, as with personal income, the annual rates of growth were close to the annual rates for GNP. This close resemblance was due in large part to the fact that consumption expenditures constitute well over half of total GNP. During the second period they grew more rapidly than disposable personal income, average annual earnings, or average hourly earnings in manufacturing. This probably reflects in part the increased use of consumer credit. Altogether, it would seem that consumer expenditures have been a sustaining, and not a restraining, force upon the economy as a whole. If this rate could be maintained in real terms, it would be consistent with what is generally regarded as a reasonably satisfactory rate of growth for the economy as a whole.

CORPORATE PROFITS Corporate profits after taxes represent the earnings available to corporate owners, or the return to the owners of corporate equity capital. They are compensation for the use of capital in economic activity and are a combination of interest, premium for risk bearing, and reward for business leadership and management. The total shows wide fluctuations from year to year with only a moderate upward trend despite very large increases in invested capital. Over the whole period the total increased by only 44%, which was less than a third of the increase in the total of wages, salaries, and other labor income. The annual rate of growth in the first period was among the lowest for any series. The higher rate for the second period was due largely to the sharp increase in profits in 1962; before that there had been very little increase over 1957. The 1962 figure was a record and could represent a turning point in the trend. As a per cent of GNP, total corporate profits have declined persistently and substantially; the average for the last three years was more than a third below the average for the first three years. The more significant figure of corporate profits as a return on equity will be discussed later.





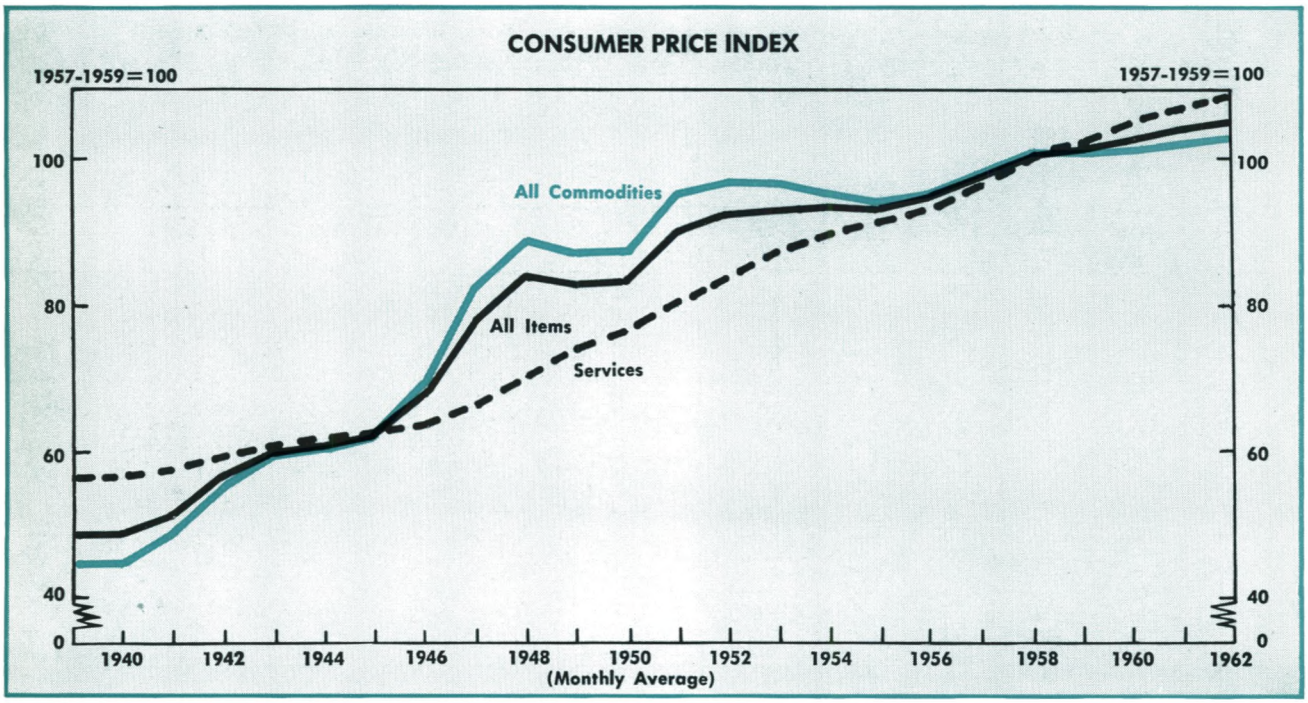
Consumer Prices

Price changes have far-reaching effects on the levels of spending by the government, business, and consumer segments of our economy. Thus, measures of price movements are important keys to the interpretation of economic fluctuations.

Three of the most widely used measures of price movements are the comprehensive implicit price deflators for the gross national product; the BLS wholesale price index, discussed in the preceding article in this series; and the consumer price index, also published by the Bureau of Labor Statistics. This article discusses primarily the consumer price index but includes a brief discussion of the purchasing power of the dollar as measured by the two BLS price indexes and the GNP deflators.

CONSUMER PRICE INDEX The key to the meaning of this index is in its complete title: "Index of Change in Prices of Goods and Services Purchased by City Wage-Earner and Clerical-Worker Families to Maintain Their Level of Living." In other words, the index is a measure of price change, not of price level. It measures the effect of price changes on a defined group of workers—not on all consumers. Also it does not show changes in the quality and quantity of goods and services bought but the change in the cost of maintaining a fixed level of living. Thus, the index does not take into consideration any shift in the standard of living of urban workers. The national index is available from 1913 forward.

THE INDEX MARKET BASKET Over 300 commodities and services, priced in a sample of retail outlets located in 46 cities, are included in the index. Sample items, outlets, and cities were selected to represent the purchases of the thousands of commodities and services made by 18 million urban wage-earner and clerical-worker families living in about 3,000 cities and towns in 1952. The sample and the weights used to combine the individual price series



are based primarily on the 1950 consumer expenditure surveys conducted in 91 cities.

In the five largest cities, prices are collected monthly except in the case of rent which is obtained every second month. In the other 41 cities, some items—such as food, fuels, and used cars—are priced monthly but the majority of prices, including rent, are collected quarterly, on a rotating cycle. Price data for individual cities are combined into the national index by using weights based on the 1950 population.

The last major revision of the index was put into effect with the January 1953 index. A major overhaul of the index, however, is now underway. The revised series, which will incorporate a new weight structure and updated samples, is scheduled for 1964. The indexes will continue the 1957-59 base and will remain unadjusted for seasonal variation.

COMPONENTS The national all-items index is subdivided into eight major groups: food; housing; apparel; transportation; medical care; personal care; reading and recreation; and other goods and services. The first four major groups include 18 subgroup indexes. Group and subgroup indexes are published monthly for each of the five largest cities, and quarterly for the 15 next largest. The food indexes are available monthly for all 20 cities.

Retail prices of selected foods and special group indexes—such as all commodities, all services, and all services less rent—are published monthly for the U. S. city-average. Available quarterly are indexes for hundreds of individual commodities and services and related classes of products based on prices obtained in a subsample of 19 cities. These special retail price series are not published for individual cities.

PURCHASING POWER OF THE DOLLAR A price rise means a decline in the quantity of goods and services that a given amount of money will buy. Thus, measures of price change are also measures of change in the value of the dollar. Inversion of a price series (division into one) yields a purchasing power series.

The BLS publishes a series showing the current purchasing power of the dollar, based on the 1957-59 "all items" consumer and the "all commodities" wholesale price indexes. For comparisons with another base period, in which the purchasing power is $1.00, the appropriate price index for the base period is divided by the index for the date to be compared. For example, the 1954 consumer price index (93.6) was divided by its 1962 average value (105.4) to obtain the 1962 purchasing power of the 1954 "consumer" dollar (89¢).

The purchasing power of the dollar can also be expressed in terms of the GNP price deflator which is, in effect, a weighted price index, on a 1954 base, for all goods and services making up the gross national product. Since the relative importance of the GNP segments varies over time, it is not strictly correct to shift the 1954 base of the deflators. For many practical purposes, however, the error introduced by shifting the base may be ignored.

THE 1962 PURCHASING POWER OF THE 1954 AND THE 1957-1959 DOLLAR

FIRE AND CASUALTY INSURANCE COMPANIES

A GROWING FINANCIAL FORCE

"Don't put all your eggs in one basket," reads the old adage. To fire and casualty insurance companies, this is more than just good personal advice. It's the backbone of their entire business.

THE INSURANCE PRINCIPLE Here's how they put this principle to work. An uninsured person is in the position of someone with all his eggs in one basket. If disaster strikes, he may be wiped out. An insurance company, however, doesn't expose itself this heavily. Instead, it spreads its risks by restricting the number of policies in one locality, by insuring various types of risks, and by limiting the size of individual policies or reinsuring the large ones with other companies. Consequently, it can predict pretty well through past experiences what *total* losses will be, although, of course, never which *particular* losses will occur.

On the basis of such loss estimates, it can then set premiums at levels considered sufficient, together with expected income from the investment of the premiums, to meet claims and provide stockholder dividends. Policyholders suffering no fire or casualty damage are "out" the amount of their net premiums. Those sustaining such damage gain on balance since the bulk of their losses is shifted to the insurer. The net cost to the policyholders collectively is the expense of operating the insuring company plus any stockholder profits.

OF POLICIES AND COMPANIES Fire and casualty insurance companies might well be called "department stores" of insurance. Some, of course, specialize in particular types of policies, but most sell many kinds of insurance. Among these are fire; other types of property coverage such as hail, windstorm, and extended coverage; casualty insurance such as liability, plate glass, and burglary; fidelity and surety bonds; accident and health insurance; and in a few cases, life insurance.

There are four types of fire and casualty companies: stock companies, mutuals, reciprocals, and domestic Lloyds. Stock companies are ordinary profit-motivated corporations owned and controlled by their stockholders. Mutuals closely resemble other types of mutual organizations in that they are "owned" by the policyholders and operated by a slate of officers chosen by a Board of Directors elected by the policyholders. Mutuals usually allow policyholders to "participate" in earnings by returning some of their premiums as "dividends." Most policies are "nonassessable," but some mutuals can assess policyholders for additional premiums if losses are heavier than expected. Reciprocals are cooperative nonprofit arrangements under which subscribers agree to share the losses of their fellow members and the costs of conducting the exchange. An "attorney in fact" coordinates operations through a central office. The domestic Lloyds, which closely resemble the famous Lloyds of London, are associations of unincorporated individual underwriters who agree to share individually to varying extents in the risks accepted by the association.

THE LIABILITY SIDE Fire and casualty companies obtain their funds chiefly from two sources: premiums and investment income. Since premiums are collected in advance and any available funds are invested, companies accumulate fairly sizable assets and liabilities. Assets consist mainly of investments, and liabilities are primarily net worth and the amounts due policyholders.

Net worth—mainly in the form of earned surplus—typically makes up nearly one-half of total liabilities, as indicated in the chart on page 9. Mutuals, reciprocals, and Lloyds usually set up a net worth account, "guaranty funds," as a substitute for the loss-cushion provided by the capital stock and paid-in surplus of stock companies. All types also maintain voluntary capital reserves as additional cushions. Few, if any, issue preferred stock or bonds.

Other liabilities take two principal forms: unearned premiums and claim reserves. Unearned premiums, as the name implies, are collected premiums which have not yet been earned by the company. Claim reserves represent claims already pending against the company in connection with losses plus the estimated amount of claims not yet reported. Each of these accounts for about one-fourth of total liabilities.

THE ASSET SIDE Investment objectives of fire and casualty insurance companies closely resemble those

of life insurance companies. Safety of principal is the prime goal in both cases since each is subject to heavy fixed dollar claims. Income stability also receives high priority since some stability is necessary for premiums to remain relatively constant.

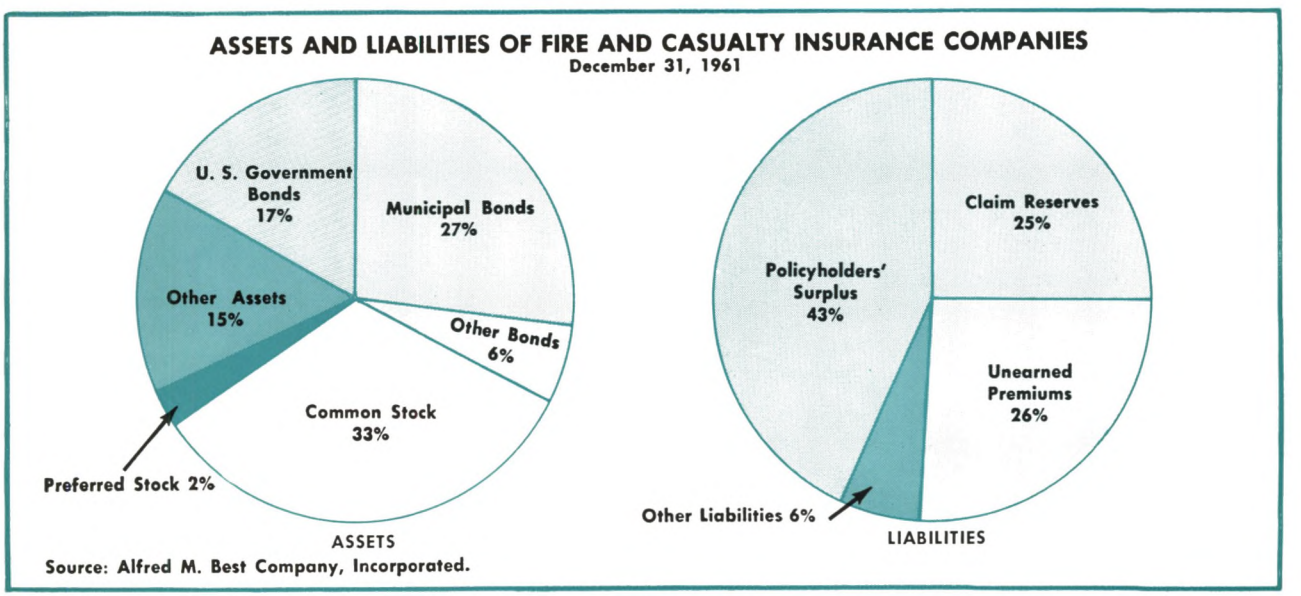
There are important distinctions, however, arising from the basic differences between the two types of companies. For example, life insurance companies must pay most policies in full since all policyholders eventually die whereas only a fraction of fire and casualty policies ever results in losses. Consequently, life companies accumulate relatively larger asset holdings in relation to the volume of their business, since the average policyholder must pay in enough premiums, together with the income the company earns on these funds, to eventually pay the proceeds of the policy. In addition, the pattern of deaths among policyholders is much more predictable than the volume of fire and casualty losses. The net result is that life companies can appropriately invest in longer term, less liquid investments than can fire and casualty companies.

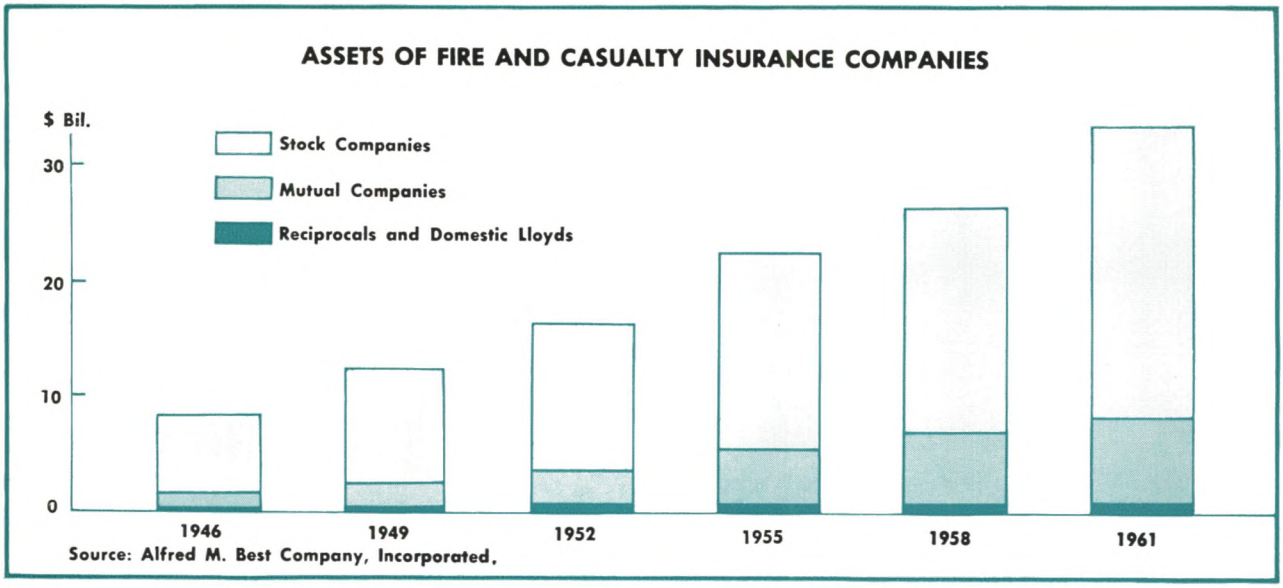
The pie chart below shows how fire and casualty companies were employing their funds at the end of 1961. Bonds accounted for nearly 50% of assets, and common stocks made up about 33%. About a third of the bonds were United States Government obligations, and most of the remainder were municipal securities. Most of the common stocks were such conservative investments as utilities, banks, insurance companies, and the like. Portfolios included only small holdings of mortgages, preferred stock, and similar investments. In contrast, life insurance companies on the same date held nearly 35% of their assets in mortgages, less than 5% in stocks, just 4% in municipal bonds, and not quite 5% in United States Government obligations.

There are many differences among fire and casualty companies, however. Predominantly casualty companies typically invest in somewhat more liquid securities than fire companies since the extent of casualty losses cannot be predicted as precisely as the volume of property losses. Mutuals also usually hold more liquid investments than stock companies since they ordinarily have less policyholder surplus in relation to assets than do the stock companies. Within these individual groups, however, there are, of course, exceptions arising from varying management philosophies.

INCOME AND EXPENSES As one would expect in view of the differences between the types of investment outlets, fire and casualty companies do not earn as high a rate of return on their assets as do life companies. During 1961, for example, the investment income of the 791 stock companies surveyed by Alfred M. Best Company, Inc., averaged before Federal income taxes 2.57% of gross assets in contrast to 3.76% for life companies. Adding in capital gains and the "underwriting profits"—the income resulting when losses are less than assumed in setting premiums—these 791 companies earned 3.42% on assets before Federal taxes. After Federal taxes they earned 2.94%.

TAXATION AND REGULATION The different types of insurance companies are taxed under separate Fed-





eral income tax formulas. Stock companies are taxed at the regular 30% and 52% corporate rates on both their underwriting gains and net investment income. Most mutuals pay a maximum rate of only 47% and, in addition, may postpone and cut taxes by setting up special loss reserves denied stock companies. Small mutuals are tax-exempt, and certain types are subject to special tax formulas. Reciprocals are taxed on virtually the same basis as mutuals. Domestic Lloyds are taxed as partnerships.

Virtually all regulation of insurance company activities is conducted by the insurance departments of the individual states in which the companies do business. The U. S. Supreme Court ruled in 1944 that insurance was subject to Federal regulation, but Congress in 1945 passed the McCarran-Ferguson Act to assure state authorities that Congress wished the major regulatory responsibilities to remain with the states. State regulations typically cover organizational procedures, rate making, examination, financial reporting, standards for agents and brokers, investment procedures, and the like.

GROWTH AND RELATIVE IMPORTANCE Property and casualty insurance has roots reaching far back into history. No one knows its origin for sure, but certainly there were crude forms in ancient Assyria, Babylonia, and China. Insurance was well known in early Rome and Greece and was frequently used throughout the Middle Ages. Today, there's scarcely an aspect of economic life that it does not affect in some way.

Property and casualty insurance companies, like most nonbank financial institutions, have grown rapidly in recent years. As indicated in the above chart, company assets have risen more than fourfold since 1946. During the same period assets of commercial banks did not even double, and gross national product rose less than 150%. Assets of investment companies, credit unions, and savings and loan associations have grown even faster than those of fire and casualty insurance companies, however.

Fire and casualty companies collectively are comparatively small when compared with the larger financial institutions. All told, they held assets of only $33.7 billion at the end of 1961 as compared with $278.6 billion for commercial banks, $126.8 billion for life insurance companies, $82.1 billion for savings and loan associations, and $42.8 billion for mutual savings banks. They were significantly larger, however, than investment companies, sales and consumer finance companies, and credit unions.

As the chart above indicates, stock companies are relatively more important than mutuals, and reciprocals and Lloyds are of only minor significance. Mutuals, however, have been growing somewhat more rapidly than stock companies—probably to a large extent because they operated until recently under a sizable tax advantage. Mutuals already considerably outnumber stock companies, but the average stock company is much larger. At the end of 1961, 791 stock companies surveyed by Best and Company held an average of $32.3 million in assets as compared with only $18.5 million for 368 of the larger mutuals. At the end of 1962, the largest stock company had $1.3 billion in resources, and the largest mutual had $787 million. One other stock company had over $1 billion, and nine other stock companies and one mutual held more than $500 million.

THE FIFTH DISTRICT

The Fifth District as a whole offers tourists a rich combination of historic sites, scenic attractions, and interesting activities in a variety of natural settings. The rising productivity of American business is gradually adding to the length and frequency of vacations, as well as shortening the workweek. Leading citizens in all parts of the Fifth District recognize the significance of these trends. The vacationer's dollar is an important injection of new income, and the vacationer himself is always a prospective resident, possibly the architect of a new business in the area if its advantages exert a strong appeal.

TOURISM HARD TO MEASURE The economic significance of tourism is notoriously difficult to evaluate. Many stores, restaurants, purveyors of services including amusements, and other business firms cater only incidentally to travelers. Regularly collected statistics cannot provide sufficient detail within the pertinent classifications to permit estimates of tourism's contribution to the total volume of business. With travelers in general and vacationers in particular assuming more and more economic importance, local businessmen, business organizations, and governmental agencies are seeking ways to measure the tourist trade as well as ways to attract more of it. In many areas, plans are being formed to accomplish both of these aims. Much current information, even though based on the best available data, is admittedly subject to an indeterminate margin of error. Additional complications arise from the fact that definitions are seldom sufficiently precise to indicate exactly what the available estimates measure. The figures presented here come from official state and District of Columbia sources. Their comparison with personal income is included simply to give them a small amount of perspective which would otherwise be totally lacking. Each area is treated separately, and comparisons between areas on the basis of available data would be misleading to say the least.

WEST VIRGINIA'S RAPID GAINS This year's Centennial celebration will undoubtedly accelerate West Virginia's already rapidly expanding tourist trade, estimated to have increased about 14% in 1962. Annual spending by vacationers is currently placed in excess of $300 million, or more than 8% of total personal income. This unusual rate of growth reflects a broad, cooperative effort on the part of government, business, and private citizens. Many West Virginians have developed a keen interest in their state's potential for attracting tourists. With numerous natural assets, such as Blackwater Falls, pictured here, they have a solid foundation on which to build. Restaurants, motels, and other establishments serving travelers are being rapidly expanded. A recent survey of tourist accommodations revealed a 20% increase between 1959 and 1962. Most of this growth occurred in the second half of the three-year period, and took the form of bigger, better equipped, and more attractively appointed motels.

SPECIAL APPROACHES There are several special aspects to West Virginia's promotion of tourism. The state publishes a quarterly magazine called *Travel West Virginia* which began with 25,000 copies in the second quarter of 1962 and grew to 75,000 copies for the 1963 summer issue. Moreover, the state's continuing efforts to cope with its unemployment problem—efforts in which tourist promotion figures importantly—have been publicized by national media, including news services, news and feature magazines, and television. These channels have provided much valuable publicity coverage at comparatively little cost.

MARYLAND TOURISM MOUNTS The Old Line State offers visitors a wide range of attractions. Baltimore, the nation's sixth most populous city according to the 1960 census, combines focal points of national pride such as Fort McHenry with glittering examples of modern business, residential, and recreational construction, largely concentrated in its downtown reclamation project. Maryland's Eastern Shore, with its historic landmarks, large estates, boating, fishing, and bathing facilities, became easily accessible from Baltimore, Washington, and areas further inland when the 7.3-mile Chesapeake Bay Bridge, an attraction in itself, was completed a few years ago. In addition, the mountains of western Maryland, long appreciated as a summer resort area, are now being developed for winter sports.

About ten years ago, a travel industry group estimated that the tourist trade was worth about $225 million to the state economy. The Maryland Department of Economic Development has begun an official study of tourism's current contribution to business and industry, but as yet no estimates are available. This Department's budget shows more funds spent currently on tourist development than for the promotion of business and industry. The volume of tourist inquiries this year has been running 50% ahead of 1962. The state's emphasis on travel is further reflected in plans to feature its tourist attractions at the 1964 New York World's Fair.

WASHINGTON, D. C. The nation's capital is, of course, unique in its attraction for tourists. The educational value of the various centers of governmental activity has long been reflected in annual trips arranged for school children from all parts of the country. According to estimates, the number of tourists visiting Washington has been growing at about 4% per year. In 1962, visitors numbered nearly 7.5 million, and spent an estimated $385 million, nearly 15% of the District of Columbia's 1962 personal income. Studies show that the initial expenditures of visitors to the nation's capital are divided about one-fourth to hotels and motels, a little more than one-fourth to restaurants, about one-fifth to retail stores, with the remainder distributed among miscellaneous travel and entertainment activities. Advance estimates place total tourist expenditures for 1963 in excess of $400 million, a new record.

VIRGINIA OFFERS VARIETY The tourist trade looms large in Virginia and North Carolina because of the great variety of recreational opportunities these states offer. A survey of attendance at Virginia's principal tourist attractions shows a rise of more than 4% between 1961 and 1962. As a guide to the growth of tourism generally, this figure is probably low because many of the more popular attractions recorded increases as high as 20%. The relatively low average resulted in part from a drop in attendance at a few locations which in 1961 featured special Civil War Centennial events such as the re-enactment of the Battle of Manassas.

Another survey indicated an increase of 2% in utilization of tourist accommodations between 1961 and 1962 and a gain of 6% in business transacted by a sample of commercial tourist attractions. According to a special survey of out-of-state cars made by the Virginia Department of Highways in 1959, 33 million visitors in over 14 million cars toured Virginia in that year and spent a total of $237 million. Application of a reasonably conservative growth rate (4% per year) to these figures suggests a 1962 level of out-of-state tourist expenditures between $270 million and $280 million, or roughly 3% of the state's total personal income.

NORTH CAROLINA RICHLY ENDOWED North Carolina shares extensive shoreline attractions with Maryland, Virginia, and South Carolina. Like other areas of the Fifth District, the Tar Heel State provides a wide variety of historical, educational, economic, and recreational facilities of interest to visitors. In the opinion of many tourists, North Carolina's particular distinctiveness is found in its mountains. Here the Appalachian ranges rise to their greatest height, and their rugged contours include the highest peaks in the United States east of the Mississippi.

Expenditures of out-of-state travelers in North Carolina during 1962 have been estimated at $270 million. This figure was moderately in excess of 3% of total personal income, about the same as in Virginia. The figures also reveal a good rate of growth; up 6% over 1961 and almost three times the level of 15 years earlier. An additional $175 million estimated as spent by Tar Heels traveling in their own state raises total travel expenditures to about 8% of all retail trade and service industry receipts. Out-of-state visitors numbered about 26 million in 1962, an increase of 5% over the previous year.

SOUTH CAROLINIA'S SPECIAL APPEAL The Palmetto State has some distinctive features not shared by other Fifth District states. The transition to a subtropical climate begins there, endowing South Carolina with unusual varieties of floral displays, and making it attractive to tourists all year around.

About 11 million out-of-state visitors toured South Carolina during 1962. Their total expenditures were estimated at $128 million, which was between 3% and 4% of personal income and about 6% of the state's total retail business. This figure represents a gain of 7% over the 1961 level and is nearly three times tourist trade receipts 15 years ago. The additional $82 million estimated as spent by South Carolinians traveling in their own state brought total tourist expenditures to about $210 million.

Tourism is clearly increasing its contribution to economic growth in the Fifth District. The information currently available probably reflects with reasonable accuracy rates of growth in regional importance. Comparisons between states will gain significance as new sources of data are developed.

PHOTO CREDITS

11. West Virginia Industrial & Publicity Commission.