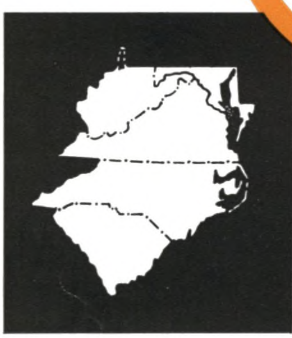
FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Federal Regulation of Bank Holding Companies—I
Consumer Spending Patterns
District Personal Income—1967
The Fifth District



OCTOBER 1968

Federal Regulation of Bank Holding

Traditionally, the banking structure of the United States has been characterized by the existence of large numbers of single-office (unit) banks. Beginning about 1900, however, branch banking became increasingly important, and bank "chains" emerged in many areas where branching was prohibited or limited by state law. In that period, the term "chain" was used in a broad sense to describe two different ownership patterns for bringing two or more banks under common ownership or control—ownership of stock in two or more banks by an individual or a small group of individuals, on the one hand, and ownership by a corporation on the other. Later, corporations owning the stock of one or more banks came to be known as "bank holding companies," and the affiliated banks owned by such a company were sometimes referred to as a bank group. Hence, today a distinction is made between "chain banking" and "group banking."

Although branch banking has from its inception been closely regulated, Federal regulation of bank holding companies came about as a by-product of the major bank reform and regulatory legislation of 1933. The present restrictions on expansion of bank holding company systems were not imposed until 1956. There are still no Federal laws restricting the growth of bank chains through stock acquisitions by individuals.

Notwithstanding the constraints on bank holding company acquisitions resulting from the Bank Holding Company Act of 1956, regulated bank holding companies have grown rapidly in recent years, as regards both numbers of such companies and numbers of banks in holding company groups. Moreover, recent months have witnessed a new development which is receiving much attention in the banking press—the creation of large numbers of so-called "one-bank holding companies." These are holding companies which own only one commercial bank and which may or may not be engaged in other financial and nonfinancial activities, either directly or through subsidiaries. Under present law, one-bank holding companies are not subject to regulation by Federal banking agencies.

Against this background of growth and change, Part I of this article reviews the events which led to the Bank Holding Company Act of 1956. Part II, to appear in the November *Monthly Review,* discusses the principal provisions of that Act (including the significant 1966 amendments) and analyzes some of the more important recent trends in bank holding company growth.

Holding Company Growth in the 1920-1933 Period

The bank holding company first became a significant factor in United States banking in the 1920's, a decade characterized by numerous important changes both in banking structure and in bank operations. Up to 1921 the number of banks steadily increased until in that year there were some 31,000 institutions, the highest number ever reached in the history of the nation's banking. Many of these banks were small, undercapitalized institutions that were ill-equipped to adjust to a rapidly changing economic environment. Over the remainder of the decade, large numbers, especially those serving rural areas of the South and the Midwest, were severely affected by the prolonged agricultural depression of the period and were forced to suspend operations. Total bank failures in the eight-year period between January 1, 1921 and January 1, 1929 numbered more than 5,000.

In the dynamic business context of the 1920's, the existence of numerous banks of doubtful strength and stability provided fertile ground for a consolidation movement in banking to take root. The Comptroller of the Currency in particular found the movement desirable and publicly advocated liberalization of banking laws to permit growth of larger, stronger, and more diversified banks. In any event, by the middle of the decade the movement toward branch banking and chain banking was gaining momentum. Then, starting about 1926, holding company banking began to expand rapidly, especially in some of the Midwestern states which had experienced large numbers of bank failures.

The several uses of the holding company device as applied to banking in this period, as well as the expansion of holding company groups, was detailed in

Companies-I

the 1927 *Annual Report* of the Federal Reserve Board, which noted:

> . . . [bank holding] companies have been organized in increasing numbers to operate extensively in the field of banking, not simply as investment agencies but specifically in individual instances to acquire control of corporately independent banking institutions, through stock ownership, and to exercise this centralized control in effecting bank mergers; in extending identical or virtually single corporate control over companies operating as subsidiaries in special fields of banking; in building up branch systems in States which permit branch banking; and in building up . . . chain systems embracing in individual instances banking institutions operating under national and State charters in several States.

But between the Board's 1927 report and enactment of the first holding company legislation in 1933, largely as a result of the general economic collapse which began in 1929, concern over bank groups shifted from the branch and chain banking aspects of their activities to their diversification into nonbanking businesses. By 1932, according to a Federal Reserve study, almost one half of the known holding companies had corporate affiliates engaged in various types of nonbanking activities. Some had as many as 14. Among the principal types of affiliates were securities and investment companies, insurance companies, and real estate companies. Among the numerous other types of affiliates were building and loan associations, land banks, restaurants, and even a municipal heating plant.

However, entry by bank holding companies into the securities business, either directly or through affiliated corporations, was brought to an abrupt halt by the crisis of 1929-1933 and by the accompanying wave of sentiment for banking reform. In January 1931, a subcommittee of the Senate Banking and Currency Committee began an extensive investigation into the extent to which stock market loans by banks, for their own account or as agents for nonbank lenders, and the stock and securities operations of bank affiliates had fueled the inflation of securities prices which culminated in the 1929 collapse. After lengthy proceedings this subcommittee concluded that

NONBANKING AFFILIATES
OF NATIONAL BANKS, 1932

Types of Affiliated Corporations	Number
Securities	192
Realty	155
Bank building	51
Safe deposit	44
Mortgage lending	37
Liquidating	35
Agricultural loan	35
Personal loan	27
Investment trusts	17
Building and loan	16
Insurance agencies	15
Finance and acceptance	7
Title companies	7
Foreign banks	6
Joint stock land banks	6
Title and mortgage companies	3
Investment houses	1
Life or casualty insurance	1
Miscellaneous	45
Total	700

such activities had played a major part in the speculative excesses of the 1920's.

In the course of the subcommittee's hearings, Governor Eugene Meyer of the Federal Reserve Board introduced the accompanying table showing the number of nonbanking affiliates of national banks as of 1932. Data for state banks were apparently not available although it appears likely that state bank affiliates exceeded national bank affiliates by a wide margin.

In 1932, the Federal Reserve Board submitted to the Senate Banking and Currency Committee the following recommendations for remedial legislation:

> With respect to affiliates the Board believes that important reforms to be accomplished at the present time are the granting of power to the supervisory authorities to obtain reports and to make examinations of all affiliates of member banks and the prescribing of limitations on the loans that a member bank may make to its affiliates. The Board realizes that many evils have developed through the operation of affiliates connected with member banks, particularly affiliates dealing in securities. The attached memorandum contains a draft of a provision for the separation of such affiliates after a lapse of three years.

The 1933 Legislation As an outgrowth of the extensive Congressional investigations and hearings from 1931 through the first part of 1933, the Banking Act of 1933 was passed. The Senate Report on the bill made the following comparisons between bank holding companies and bank affiliates generally:

> There seems to be no doubt anywhere that a large factor in the overdevelopment of security loans, and in the dangerous use of the resources of bank depositors for the purpose of making speculative profits and incurring the danger of hazardous losses, has been furnished by perversions of the national banking and State banking laws. . . .
>
> (a) The greatest of such dangers is seen in the growth of "bank affiliates" which devote themselves in many cases to perilous underwriting operations, stock speculation, and maintaining a market for the banks' own stock often largely with the resources of the parent bank. . . .
>
> * * *
>
> Closely allied in many points of similarity with the affiliate system is the plan of group banking in operation in some parts of the United States, working, in a few cases, on a large scale. In this system a holding company is organized under State law and proceeds to buy a majority of the stock of a series of banks, operating them thereafter through the holding company. . . . The difference between this plan and the affiliate system itself is that in the one banks are owned by a State-organized holding company, while in the other State-organized companies (affiliates) are owned by a national bank's stockholders, or in some cases directly by trust companies, under some form of law which amounts to ownership by the parent bank itself. The evils of indirect control are similar in the two cases, and they may lead to similar abuses, as is seen when it is noted that holding companies also usually control companies organized for security financing. However, such companies have in some parts of the United States become well rooted, and the difficulty of eliminating or abolishing them in any effective way is similar to the difficulty of eliminating or abolishing the affiliates of city banks. . . .

The Banking Act of 1933 provided for complete separation of ownership and control of member banks on the one hand and securities affiliates on the other. Except for the securities business, however, the Act stopped short of requiring separation of ownership and control of banks and nonbank businesses. Rather, control over bank holding company activities was sought through requiring holding companies to obtain permits from the Federal Reserve Board before voting the stock of any Federal Reserve member bank that they controlled. Before granting such a permit the Board was required to consider the financial condition of the applicant holding company, the general character of its management, and the probable effect of granting the permit on the affairs of the member bank or banks concerned. In applying for a permit, holding companies were required to agree to a number of conditions including (1) maintaining reserves of marketable assets of specified amounts, (2) permitting examinations of their own affairs and those of all other banks and other organizations controlled by them, (3) terminating all connections with all securities companies, and (4) declaring dividends only out of actual net earnings. Furthermore, the Federal Reserve Act was amended to restrict extensions of credit by national and state member banks to their affiliates, including bank holding companies, and investments in, or advances against, stocks and obligations of their affiliates.

Separation of the securities business from banking was accomplished by three sections of the 1933 legislation which provided, respectively, that no member bank could be affiliated with any organization principally engaged in the sale or distribution of securities, that no securities company and no other organization except an institution subject to examination and regulation under state or Federal law could receive deposits subject to check, and that no officer or director of any member bank could be at the same time an officer, director, or manager of any securities company.

Thus, the regulatory approach to bank holding companies adopted in 1933 left holding companies free to acquire banks both within and beyond the borders of the states where their principal banking operations were located without any requirement of prior approval by Federal bank supervisory authorities, and to combine the management of these banks with any nonbank business activities except the securities business.

Events Leading to 1956 Legislation After 1933 the unregulated expansion of certain powerful bank holding companies by both methods described above led directly to enactment of the Bank Holding Company Act of 1956. Growth was particularly notable in the West and in a few Midwestern states where branch banking was prohibited or sharply limited.

An outstanding example in this period was Transamerica Corporation, which by the end of 1946 had acquired 41 banks operating a total of 619 banking offices in Arizona, California, Nevada, Oregon, and Washington. By that date, Transamerica banks accounted for more than 40% of all banking offices and over 38% of all commercial bank deposits in the five states. Between December 31, 1933 and December 31, 1946 the Transamerica group acquired 126 banks and established 74 new branches in the five-state area. Moreover, it owned and operated a wide variety of nonbank businesses with aggregate resources of over $275 million. These businesses included real estate, insurance, the manufacture of diesel engines, and the buying, processing, and selling of fish and seafood.

Largely as a consequence of the rapid expansion of bank ownership by holding companies within nonbranching or limited branching states as well as across state lines, and the large-scale diversification into nonbank business activities by Transamerica and certain other holding companies after 1933, legislation calling for closer regulation of bank holding companies was introduced in every Congress from 1946 through 1956. In 1952 the Board of Governors of the Federal Reserve System submitted to the House Committee on Banking and Currency a letter setting forth the following conclusions based on the Board's experience administering the holding company provisions of the Banking Act of 1933:

> The Board believes that the principal problems in the bank holding company field arise from two circumstances: (1) the unrestricted ability of a bank holding company corporation to add to the number of its banking units, thus making possible the concentration of a large portion of the commercial banking facilities in a particular area under single control and management; and (2) the combination under single control of both banks and nonbanking enterprises, thus permitting departure from the principle that banking institutions should not engage in business wholly unrelated to banking because of the incompatibility between the business of banking which involves the lending of other people's money and other types of business enterprises.

The Board also submitted data indicating that as of December 31, 1950 there were 28 nonbank holding company groups owning 367 banks located in 28 states and the District of Columbia with aggregate deposits of $13.6 billion. Among the nonbanking activities of 20 of these 28 groups were life insurance, home financing, automobile insurance, fire and marine insurance, real estate, commercial fishing and fish processing, manufacturing, and investment functions of various kinds. Total resources reported for nonbanking activities by the 20 holding company groups amounted to almost $500 million.

Extensive Congressional hearings on proposed holding company bills were held in 1952, 1953, 1955, and 1956. In the course of Senate hearings in 1953, Governor Robertson of the Board of Governors made the following statement:

> For many years, as you know, almost from the beginning of banking in this country, banks have been prohibited from engaging in other business.
>
> Banks are using depositors' funds and not their own funds. Consequently, the risks in which they invest funds are different from the risks which are undertaken by any other business. The types of management called for in the two institutions—that is, a banking and a nonbanking institution—are very different.
>
> A different type of attitude is required. In one you are safeguarding depositors' funds, and so in the other you are justified taking greater calculated risks.
>
> Therefore, we think the two ought to be separated. In addition, there is always the possibility that if a company controls both, it can use the bank for the indirect benefit of the nonbanking business.

Then in 1955, the most comprehensive set of data on bank holding companies assembled up to that time was compiled by the House Banking and Currency Committee. This information revealed that if a definition of "bank holding company" were adopted based on control of 25% or more of the stock of each of two or more banks by a single corporation, business trust, association, or similar organization, such a definition would cover 46 holding companies located in 32 states and the District of Columbia. Collectively, these embraced 391 banks with 627 branches and $14.3 billion in deposits. Further, however, if the definition were expanded to include all corporations, business trusts, associations, or similar organizations controlling 25% or more of the stock of a *single* bank, then the total would have risen to 163 companies located in 42 states and the District of Columbia, owning 541 banks with 899 branches and $25.9 billion in deposits.

Meanwhile, on June 24, 1948 a proceeding under the Federal antitrust laws had been instituted against Transamerica Corporation, charging systematic and continuous acquisitions of stocks of independent banks in five Western states, with effects that might be anticompetitive or monopolistic. After lengthy hearings, divestiture of 46 acquired banks located in four states was ordered. However, on appeal, the order was set aside on the ground of failure of proof, and the Supreme Court declined to review the case. The Court did rule, nevertheless, that acquisitions of commercial bank stocks by holding companies are subject to attack on antitrust grounds.

Moreover, Transamerica's 1953 victory in the courts contributed to the drive to bring bank holding company expansion under Federal regulation. Just three years later, after two decades of controversy, the Bank Holding Company Act of 1956 was passed, requiring all bank holding companies meeting the statutory definition to register with the Board of Governors. This legislation, to be discussed in the next issue of the *Monthly Review,* placed new restrictions on registered companies and invested the Board of Governors with extensive regulatory and supervisory authority over such companies.

William F. Upshaw

CHANGING CONSUMER SPENDING PATTERNS

□ In 1967 the consumer emptied his pocketbook of more than $492 billion on various goods and services. This figure represents an increase of more than 200% since 1947. The largest outlays have been for nondurable commodities, but their share of total consumer expenditures declined from 56% to 44% over the 20-year period. Consumer demand for services has grown to where it comprised 41% of spendings in 1967, as compared with about 31% in 1947. Part of this gain was the result of the faster rise in the prices of services as compared with consumer goods. Purchases of durable goods remained fairly stable at about 15% of total expenditures. □ The decline in spending for nondurables relative to total expenditures can in large part be traced to changes in consumer acquisitions of food, alcohol, and tobacco. Although the dollar allocation for these items more than doubled between 1947 and 1967, their portion of the consumer's dollar declined from 34.9% to 24.1%. This pattern also holds true for purchases of clothing, accessories, and jewelry. □ Housing, medical care, personal business, and transportation are now requiring significantly larger portions of the consumer's expenditures. Housing costs rose to nearly $71 billion, accounting for almost 5% more of total spending than 20 years ago. Transportation expenses rose from 9.4% to nearly 13% of total expenditures. The greatest changes in this category have been in the kinds of vehicles used. Nearly 93% of transportation costs in 1967 were for the purchase and upkeep of automobiles. In 1947, 81% of the consumer's transportation expenses were for his car. For purchased intercity transportation, the airlines have registered phenomenal growth since 1947, and have increased 25% in the past year. Spendings on intercity railway transportation have dropped 61% in the past 20 years. □ Medical care expenses rose from nearly $7 billion in 1947 to $34 billion in 1967, an increase from 4.3% to 6.9% of total consumer spending. Increases were found in all medical areas, most notably in outlays for private hospitals and sanitariums. The personal business section grew from 3.4% to 5.4% of total expenditures while the 1967 dollar outlays reached nearly $27 billion. □ The remaining six categories, expressed as percentages of total expenditures, have fluctuated less than 1% from the 1947 division. In spite of the seemingly small changes, some interesting developments have occurred. □ In the aftermath of World War II there was very little foreign travel to and from the United States. Net foreign travel in 1947 totaled a mere $5 million. Twenty years later, however, it reached more than $4 billion. □ The 1947 division of personal consumption expenditures allotted 0.8% of the total for costs of private education and research. By 1967, this percentage allocation grew to 1.6%. The $6.9 billion contribution for religious and welfare activities is nearly 3½ times its dollar provision of 1947, even though the percentage of total spending only increased from 1.2% to 1.4%. This trend was apparent also in outlays for recreation and personal care. Household operation, on the other hand, had a reduction in its percentage of total allocations from 14.9% in 1947 to 14.2% last year.

PERSONAL CONSUMPTION EXPENDITURES BY TYPE OF PRODUCT	BILLIONS OF DOLLARS 1947	1967	PERCENTAGE OF EXPENDITURES 1947	1967
Food, tobacco, and alcoholic beverages	56.1	118.6	34.9	24.1
Clothing, accessories, and jewelry	22.8	50.7	14.2	10.3
Personal care	2.2	8.5	1.4	1.7
Housing	15.7	70.9	9.7	14.4
Household operation	24.0	69.9	14.9	14.2
Medical care expenses	6.9	34.0	4.3	6.9
Personal business	5.4	26.7	3.4	5.4
Transportation	15.2	63.5	9.4	12.9
Recreation	9.2	30.6	5.8	6.2
Private education and research	1.2	7.9	0.8	1.6
Religious and welfare activities	2.0	6.9	1.2	1.4
Foreign travel and other, net	0.0	4.0	0.0	0.8
Total personal consumption expenditures	160.7	492.2	100.0	100.0

Note: Details will not necessarily add to the totals because of rounding.
Source: U. S. Department of Commerce

	Total Personal Income	Per Capita Personal Income
	($ Million)	(Dollars)
United States	625,068	3,159
Fifth District	50,866	2,757
District of Columbia	3,336	4,123
Maryland	12,595	3,421
North Carolina	12,267	2,439
South Carolina	5,752	2,213
Virginia	12,719	2,804
West Virginia	4,197	2,334

FIFTH DISTRICT PERSONAL INCOME 1967

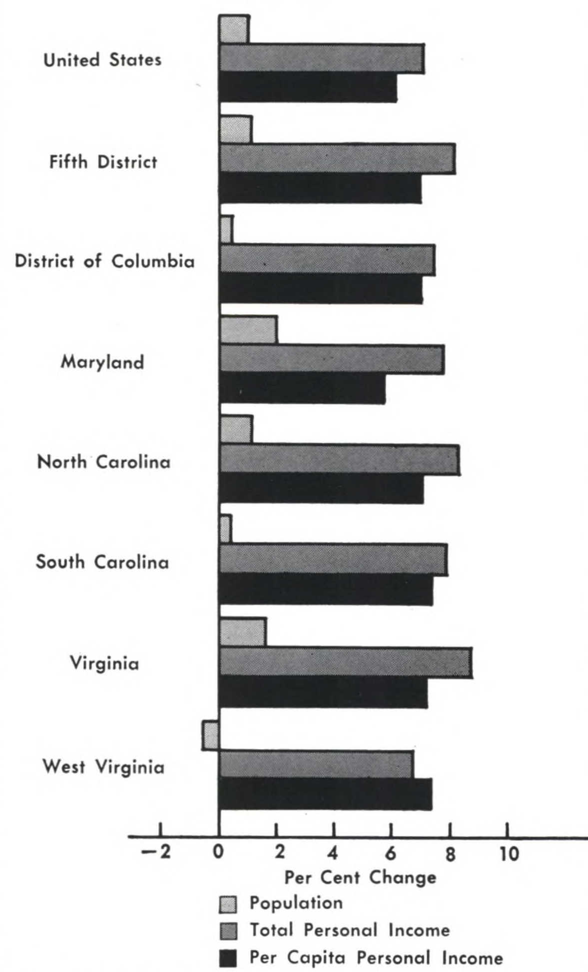
Changes in total personal income and in per capita personal income are among the most meaningful measures of economic growth. Total personal income is the sum of the income received by individual persons from all sources, including welfare payments, before income taxes and other direct taxes are paid. In the Fifth District personal income rose to a new high during 1967, reaching $50.9 billion, while in the nation it rose to $625.1 billion. These represented gains of 8.1% for the District and 7.1% for the nation. Per capita income in the District rose to $2,757 during 1967, a jump of 6.9% over 1966. Nationally, per capita income rose to $3,159, a gain of 6.1% over the 1966 level.

District Developments As the accompanying chart shows, all of the Fifth District states made significant gains in total personal income. Virginia scored the greatest gain with an increase of 8.8%, reaching $12.7 billion in 1967. West Virginia had the smallest gain, 6.7%, but this was very close to the 7.1% increase for the nation. The remaining Fifth District states all had percentage gains greater than the national increase. Increases in per capita income for all Fifth District states were in line with the national gain of 6.1%. Maryland had the smallest increase, while South Carolina and West Virginia led the District with increases of 7.4% each. The District of Columbia had the largest per capita income in the District and in the nation, $4,123, significantly outstripping the national average of $3,159.

Sources of District Income The largest contributor to District income was wages and salaries paid to Federal and state and local government employees (see table). With a total of $10.9 billion paid, this category represented 21.4% of total personal income in the District and 30.1% of total wages and salaries. A major reason for the large increase

CHANGES IN INCOME AND POPULATION

1966-1967



Source: U. S. Department of Commerce.

in wage and salary payments to government employees was the rapid expansion in defense spending. It affected the 1967 income distribution through three major income components: military payrolls, Federal civilian payrolls, and factory payrolls in defense-oriented industries.

Significant gains were also made in wages and salaries paid in the manufacturing, trade, and services industries within the District. Manufacturing was second only to Government as a source of wage and salary income in the Fifth District, although the percentage growth in manufacturing wages and salaries was less than the growth in total wages and salaries. Wholesale and retail trade, another important source of wages and salary income, recorded an 8% increase over the 1966 figure. In the rapidly growing services sector, the increase was 11.5% over 1966 wages and salaries.

Farm wage and salary income decreased in all District states except West Virginia where it remained unchanged. Declines ranged from 6.7% in North Carolina to 3.8% in South Carolina. As was the case in 1966, District farm wages have continued to increase but the decline in 1967 can be attributed to a decrease in the number of farm workers, particularly hired workers.

Proprietors' income, property income, and transfer payments all made significant gains in the District. Proprietors' income, defined as the earnings of self-employed people and owners of unincorporated enterprises, grew by $204 million, or 4.9%, with a little more than half of that amount coming from non-farm activities and the remainder arising from farming. This gain far exceeded the increase for the nation as a whole. Property income, which includes dividends, rents, and interest, also grew significantly. With an absolute increase of $372 million and a percentage increase of 6.4%, the District scored as well

FIFTH DISTRICT INCOME BY MAJOR SOURCES 1966-1967

Source	Amount 1966	Amount 1967	Change, 1966-1967	Change, 1966-1967	Distribution of Total Personal Income	Distribution of Wages and Salaries
	$ Million	$ Million	$ Million	Per Cent	Per Cent	Per Cent
PERSONAL INCOME	47,076	50,866	3,790	8.1	100.0	
WAGES AND SALARIES	33,453	36,145	2,692	8.0	71.1	100.0
FARMS	187	177	− 10	− 5.3	0.3	0.5
MINING	445	463	18	4.0	0.9	1.3
CONTRACT CONSTRUCTION	1,994	2,038	44	2.2	4.0	5.6
MANUFACTURING	9,073	9,593	520	5.7	18.9	26.5
TRADE	4,750	5,131	381	8.0	10.1	14.2
FINANCE, INSURANCE, AND REAL ESTATE	1,247	1,357	110	8.8	2.7	3.8
TRANSPORTATION, COMMUNICATION, AND PUBLIC UTILITIES	2,262	2,396	134	5.9	4.7	6.6
SERVICES	3,613	4,030	417	11.5	7.9	11.1
GOVERNMENT	9,812	10,887	1,075	11.0	21.4	30.1
Federal, civilian	4,169	4,499	330	7.9	8.8	12.4
Federal, military	2,371	2,713	342	14.4	5.3	7.5
State & local	3,274	3,675	401	12.2	7.2	10.2
OTHER INDUSTRY	69	73	4	5.8	0.1	0.2
OTHER LABOR INCOME	1,551	1,737	186	12.0	3.4	
PROPRIETORS' INCOME	4,205	4,409	204	4.9	8.7	
FARM	1,058	1,153	95	9.0	2.3	
NONFARM	3,146	3,255	109	3.5	6.4	
PROPERTY INCOME	5,803	6,175	372	6.4	12.1	
TRANSFER PAYMENTS	3,545	4,102	557	15.7	8.1	
LESS: CONTRIBUTIONS FOR SOCIAL INSURANCE	1,482	1,703	221	14.9	3.3	

Details may not add to totals due to rounding.

Source: U. S. Department of Commerce.

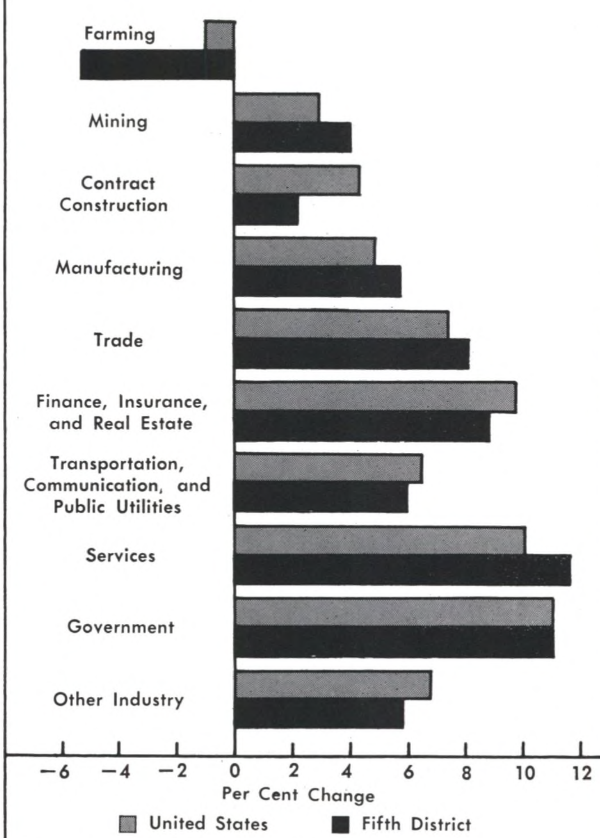
as the nation, which registered an increase of 6.5%. Government transfer payments recorded the largest percentage increase of any of the components of total personal income in the District, 15.7%. For the nation as a whole, the increase was 17.8%. These payments consist of unemployment compensation, social security benefits, and veterans' pensions.

Income by States All District states had gains in the major sources of personal income. Wages and salaries, representing 71.1% of total personal income in the District, was the highest in Virginia with a total of $9,348 million. Virginia was also the leader in wages and salaries paid in 1966. Maryland was in second place with $9,261 million, followed by North Carolina, South Carolina, West Virginia, and the District of Columbia. Of the District states, North Carolina scored the greatest percentage gain over 1966, with a rise of 9.1%.

The government, both Federal and state and local, is one of the largest employers in the District. This is especially true in Maryland and Virginia where many workers are employed in the nation's capital. North Carolina made the greatest gain in wages and salaries paid to government workers — a rise of 13.7%. Virginia followed with a gain of 12.9%. Wages and salaries of District military personnel had the greatest percentage increase among all government workers with a rise of 14.4%. State and local government employees had an increase of 12.2%.

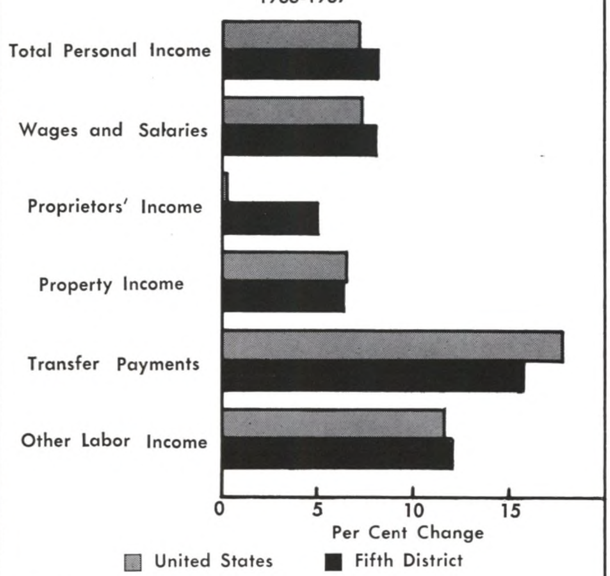
As factory employment has increased in the District, manufacturing wages and salaries have subsequently risen, and in 1967 income from this source accounted for almost one-fifth of total personal income in the District. With many new jobs becoming available, North Carolina led the other District states with manufacturing wages and salaries reaching $3,151 million—a 7.1% increase over 1966. Increases for the other District states ranged from 6.1% for Virginia to 2.8% for West Virginia.

CHANGES IN WAGE AND SALARY INCOME
1966-1967



Source: U. S. Department of Commerce.

CHANGES IN INCOME BY MAJOR SOURCES
1966-1967



Source: U. S. Department of Commerce.

Summary As can be seen in the charts and table, 1967 was another banner year for personal income and per capita income in the Fifth District. Relatively speaking, District states made significant gains in many of the major components of personal income and exceeded gains for the nation as a whole in some categories during the period 1966-1967. Looking ahead to 1968, indications are that this pattern will continue.

Priscilla A. Gowen

The Fifth District

Several notable changes have occurred over the last three years in the sources of personal income among Fifth District states. (See also "Fifth District Personal Income—1967", page 8, this *Review.*) This article uses recently published Department of Commerce data to determine the relative importance of various income sources and the average annual rates of growth in these sources from 1965 to 1967 in order to highlight the important changes. For details, see table, page 12.

The District rate of increase in the wage and salary component of personal income was higher than in the total U. S. on an annual average basis since 1965. The District rate was boosted by North and South Carolina and Virginia, in which the wage and salary component grew more rapidly than the District average.

The highest annual rate of growth in any major part of wages and salaries occurred in the government sector for the District. It was also the largest contributor to total District personal income in 1967, within the wage and salary category. Again, the Carolinas and Virginia derived the principal benefit of the government sector growth.

A further breakdown of the government sector indicates that the largest growth since 1965 was recorded in military payrolls in all District states, and that the District at large increased more in this area than the U. S. average increase. Federal civilian payrolls are important in the District. They comprise a share of personal income higher than the U. S. average in Maryland, D. C., Virginia, and South Carolina. They also grew at a higher rate than the national average in Virginia, West Virginia, and the Carolinas.

Rates of growth higher than the U. S. average were registered by the Fifth District in mining, manufacturing, wholesale and retail trade, and services. In mining, Maryland's activity declined, but substantial growth occurred in North Carolina and to a smaller extent in South Carolina in phosphate mining. Coal mining remains significant in Virginia and West Virginia.

Manufacturing payrolls advanced in all District states, and at rates higher than the national average in North and South Carolina. The Fifth District experienced rates of growth above those of the U. S. in both durable and nondurable lines, but as of 1967, durable manufacturing was of more importance than nondurables only in Maryland and West Virginia. The most substantial increases in durable manufacturing payrolls for the District were in North and South Carolina.

Maryland, North Carolina, and South Carolina experienced greater growth in wholesale and retail trade payrolls than either the District or national averages. Payrolls from service industries have been on the increase in both the nation and the District, surpassed in each case in growth only by government, among the major wage and salary sectors. Maryland and South Carolina outpaced the District in the services category, and services accounted for the highest growth among major sectors in Maryland and D. C.

Outside the wage and salary area, nonfarm proprietors' income in all District states except D. C. and Virginia advanced more rapidly than in the U. S. Also of considerable interest in the proprietary income category is the income of farmers. In 1967, the contribution to total personal income made by farm income was the same, on the average, in the Fifth District as in the nation at large. However, while the importance of the farm income component has declined nationally since 1965, it has increased in the District at large and in the states of Maryland, North Carolina, and South Carolina. Moreover, it did not decline in any Fifth District state. On the other hand, farm wages paid, in the wage and salary category, did decline throughout the District.

Transfer payments which do not result from the production of goods and services have advanced rapidly in the District and in the nation. In 1967 they comprised larger shares of total personal income in D. C. and West Virginia than in other District states or the nation. Also, they have grown more rapidly in Maryland, D. C., and Virginia than in the nation at large.

William H. Wallace

ANALYSIS OF SOURCES OF PERSONAL INCOME, 1965-67
United States and Fifth District States

	Per Cent of Personal Income, 1967								Average Annual Rate of Growth, 1965-67							
	U. S.	5th Dist.	Md.	D. C.	Va.	W. Va.	N. C.	S. C.	U. S.	5th Dist.	Md.	D. C.	Va.	W. Va.	N. C.	S. C.
PERSONAL INCOME	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	8.0	8.8	8.5	6.1	8.9	6.7	10.0	10.2
Wage and salary disbursements	67.1	71.1	73.5	66.0	73.5	66.8	68.8	71.1	8.6	9.4	9.1	5.1	9.5	6.7	11.0	11.1
Farm	0.4	0.3	0.2	*	0.3	0.2	0.7	0.4	−0.2	− 5.9	− 8.7	0.0	− 6.5	− 6.5	− 2.3	−13.0
Mining	0.7	0.9	0.1	*	0.6	8.1	0.2	0.2	3.7	4.5	−15.0	0.0	6.0	4.4	18.3	6.1
Coal mining	0.2	0.7	*	*	0.5	7.5	*	*	5.1	5.3	0.0	0.0	7.9	4.8	0.0	0.0
Crude petroleum and natural gas	0.3	*	*	*	*	0.4	*	*	4.0	0.0	0.0	0.0	0.0	− 3.0	0.0	0.0
Mining and quarrying, except fuel	0.2	0.1	0.1	*	0.1	0.2	0.2	0.2	2.4	2.3	−17.1	0.0	0.0	6.1	18.3	6.1
Contract construction	3.9	4.0	4.5	2.0	4.2	4.2	3.7	4.2	7.2	7.2	5.0	− 4.3	2.2	16.9	11.8	14.3
Manufacturing	21.5	18.9	15.8	2.3	15.2	20.9	25.7	27.2	7.7	8.2	7.2	5.7	7.5	4.5	10.2	8.7
Durables	13.5	7.7	9.5	0.3	6.4	13.2	8.2	6.3	8.4	8.9	7.6	6.1	7.4	4.2	12.8	15.2
Nondurables	7.9	11.1	6.4	2.0	8.8	7.8	17.5	20.9	6.6	7.6	6.6	5.7	7.6	4.9	9.0	6.9
Wholesale and retail trade	11.0	10.1	11.6	6.7	10.1	8.8	10.5	8.8	7.9	9.2	10.3	3.5	7.8	7.6	10.5	10.9
Finance, insurance, and real estate	3.2	2.7	3.2	2.4	2.7	1.7	2.6	2.3	8.6	8.4	8.5	4.6	8.0	6.1	9.8	10.0
Banking	0.8	0.6	0.6	0.5	0.7	0.5	0.7	0.5	9.2	10.3	8.8	3.3	10.2	7.2	13.0	13.7
Other finance, insurance, and real estate	2.3	2.0	2.6	1.9	2.0	1.1	1.9	1.8	8.4	7.8	8.5	5.0	7.3	3.3	8.7	8.9
Transportation, communications, & public utilities	5.0	4.7	5.1	3.3	5.1	6.4	4.3	3.4	7.0	6.9	6.2	1.9	7.2	3.7	9.6	9.4
Railroads	0.9	0.9	0.9	0.4	1.3	2.1	0.5	0.6	1.4	0.7	− 1.3	−10.6	3.2	− 0.6	2.4	1.4
Highway freight and warehousing	1.1	1.1	1.0	0.1	1.0	1.1	1.8	0.8	7.0	8.2	8.2	− 8.7	6.4	7.4	9.5	10.9
Other transportation	1.1	0.8	1.1	0.9	1.1	0.4	0.5	0.4	11.9	10.4	6.4	3.5	12.2	6.5	19.3	15.5
Communications and public utilities	1.9	1.8	2.1	1.9	1.7	2.9	1.5	1.5	7.2	8.2	8.9	4.3	7.7	5.9	9.7	10.8
Services	8.0	7.9	9.6	13.4	7.7	5.6	6.4	6.7	9.9	11.0	13.8	8.7	10.2	6.6	10.2	11.5
Hotels and other lodging places	0.4	0.4	0.3	0.6	0.5	0.3	0.3	0.3	8.1	9.8	7.1	2.5	11.1	8.0	14.9	15.5
Personal services and private households	1.3	1.8	1.5	2.0	1.8	1.0	2.0	2.2	5.2	5.9	7.5	− 1.5	6.7	3.7	6.6	6.1
Business and repair services	1.7	1.6	2.8	1.7	1.6	0.7	0.8	1.0	11.8	16.6	24.2	6.6	10.3	15.5	11.7	18.9
Amusement and recreation	0.5	0.3	0.5	0.3	0.2	0.3	0.2	0.2	7.3	10.2	11.1	6.1	9.2	4.4	13.4	11.8
Professional, social, and related services	4.1	3.9	4.4	8.8	3.7	3.2	3.0	3.0	11.4	11.5	11.1	12.7	12.4	5.2	12.1	12.8
Government	13.2	21.4	23.3	35.3	27.4	10.9	14.7	17.9	11.5	11.7	10.0	5.0	13.3	11.4	14.5	15.8
Federal, civilian	3.4	8.8	12.0	25.9	12.0	2.1	2.2	4.1	8.9	7.4	6.6	2.3	9.9	9.8	11.3	12.8
Federal, military	2.1	5.3	3.9	4.7	8.2	0.5	4.9	7.0	16.3	19.7	19.7	14.4	19.7	12.5	20.7	21.0
State and local	7.7	7.2	7.4	4.7	7.2	8.4	7.6	6.9	11.5	12.0	11.2	13.0	12.7	11.7	11.8	12.7
Other industries	0.1	0.1	0.1	0.6	0.1	*	0.1	0.1	7.1	7.6	10.9	5.4	7.4	0.0	8.7	8.0
Other labor income	3.7	3.4	3.3	2.0	3.1	4.2	3.7	3.9	11.4	11.5	11.4	8.4	11.5	8.2	13.2	12.2
Proprietors' income	9.7	8.7	7.5	3.9	7.4	7.7	12.0	10.4	3.0	5.7	4.6	0.0	3.3	5.9	7.8	7.7
Farm	2.3	2.3	0.8	*	1.6	0.7	5.0	3.7	− 1.4	6.1	1.0	0.0	0.0	0.0	8.3	9.9
Nonfarm	7.4	6.4	6.7	3.9	5.8	7.0	7.0	6.8	4.5	5.6	5.1	0.0	4.4	6.3	7.4	6.6
Property income	14.4	12.1	12.4	17.4	12.1	12.3	11.3	10.3	7.8	7.7	7.1	6.7	8.8	6.2	7.6	8.5
Transfer payments	8.3	8.1	6.8	13.9	7.2	12.2	7.5	7.6	13.8	13.3	14.3	13.9	14.3	10.7	12.6	13.2
Less: personal contributions for social insurance	− 3.3	− 3.3	− 3.5	− 3.3	− 3.4	− 3.2	− 3.2	− 3.3	23.2	22.4	20.6	11.2	22.4	24.3	25.8	26.2

* Less than 0.1%.

Source: U. S. Department of Commerce.