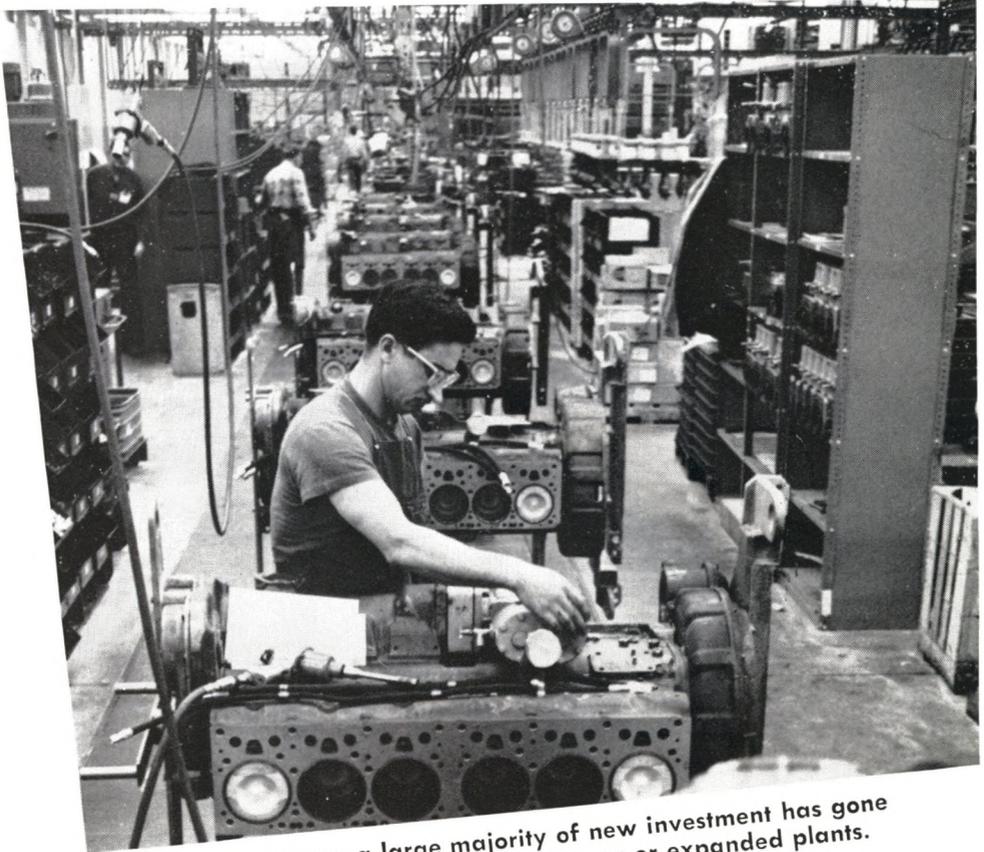


MONTHLY REVIEW



In recent years a large majority of new investment has gone into equipment rather than into new or expanded plants.

FEDERAL RESERVE BANK OF RICHMOND

OCTOBER 1963

MAJOR TRENDS IN THE POSTWAR ECONOMY—III

This is the third and last article of a series describing and discussing major trends and problems in the economy of the United States since World War II. The earlier articles presented 12 statistical series which indicated the trend of activity in the major sectors of the economy and discussed certain important problems and developments. This concluding article discusses a group of related trends and developments which together probably constitute the major economic problem of our time. As in the earlier articles, the superscriptions above the lines of the charts denote annual rates of growth.

The Slow-Growth Complex The previous discussion and analysis lead up to the nub—the hard core—of the group of economic problems which beset the economy. For convenience this may be labeled “the slow-growth complex.” It includes a moderately slow rate of economic growth, a relatively high rate of unemployment, and large deficits in the balance of payments. These are interrelated and are, in turn, related to rising production costs, declining corporate profits, and a low rate of business investment. The interrelationships between these factors do not constitute a full explanation of the dilemma, but they are important causes. The examination of this complex may well begin with a consideration of corporate profits, which seem to be a key factor.

Corporate Profits Total corporate profits in this country have not shown a vigorous growth rate since World War II. Despite tens of billions of dollars of new business investment, total profits, whether before or after taxes, have risen only slowly and erratically, and have lagged far behind the growth rate of the economy as a whole. An accompanying chart shows, for all United States corporations, payments made in the form of compensation to employees, indirect taxes, and profits before taxes. The latter is a total figure and takes no account of additional investment in corporate enterprises.

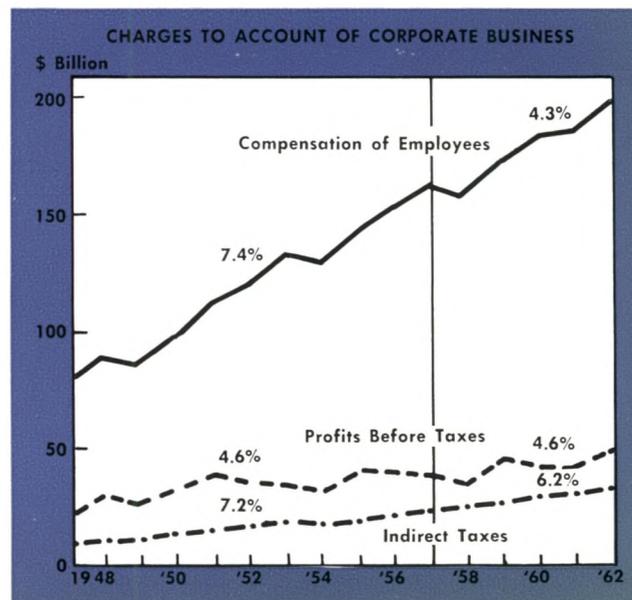
More significant figures, of course, are those which show earnings or income per unit of capital. Another chart shows corporate profits after taxes as a return on equity capital. For a comparison of trends, another line on that chart shows average hourly earnings of employees in manufacturing. These latter figures do not include most of the large and growing amount of fringe benefits.

The concept of corporate profits is neither precise

nor stable. The allowance for depreciation is one of the most uncertain and changeable factors affecting it. In the past 15 years the depreciation allowed for tax purposes has been increased two or three times, and this has accounted in some measure for the declining trend of profits noted above.

Despite the importance of the subject, there are no satisfactory data on corporate profits related to equity capital. As Professor George Stigler has stated: “Considering how often our economic system is described as ‘capitalistic’ or ‘the profit system,’ it is paradoxical that we have relatively little information on the stock of capital or the rate of profits it yields in various industries.” The data on corporate profits as a return on equity were compiled by The First National City Bank of New York. They are based on a sample of large corporations and, in the words of the bank’s publication, “. . . are biased in favor of success, embracing practically all of the largest and most successful corporations.” Even so, the figures show that since 1947 the rate of return has declined steadily and significantly, falling from 12.3% in 1947 to 9.1% in 1962.

In a study of profits in the manufacturing field, Professor Stigler was able to examine data from corporations of all sizes since they were derived from income tax returns. The rates of return he found reflect the inclusion of smaller and less successful corporations and hence were substantially below those noted above, but the trend and the pattern were much the same. He computed rates which declined fairly steadily from 10.38% in 1947 to 6.29% in 1957.



The declining rate shown in both series is all the more significant because it occurred at a time when interest rates were rising substantially and the totals which are called corporate profits necessarily include a large element of implicit interest cost.

The chart on hourly earnings and rates of return shows dramatically the divergent movement of the compensation of employees and the compensation of capital. In the 1957-62 period, while hourly rates were growing at an annual rate of more than 3% (exclusive of most fringe benefits), the rate of return on equity capital was declining by 2.6% per year. This followed a ten-year period in which the divergence had been even greater.

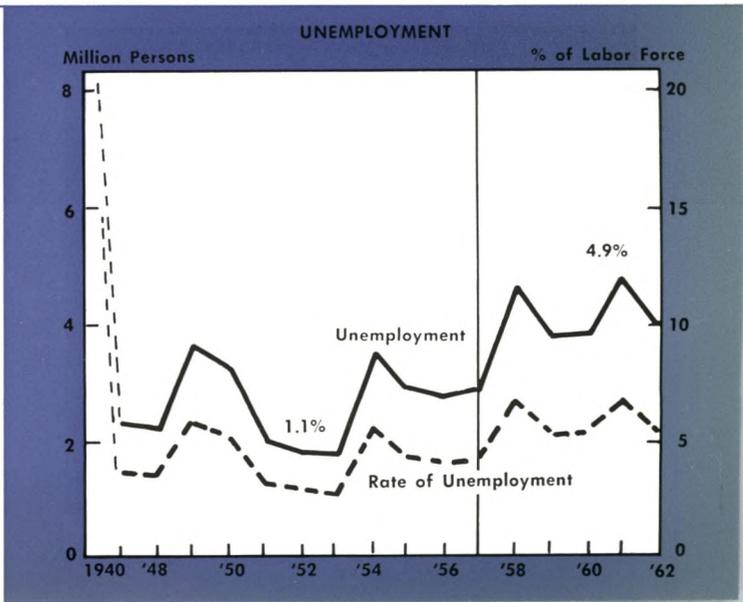
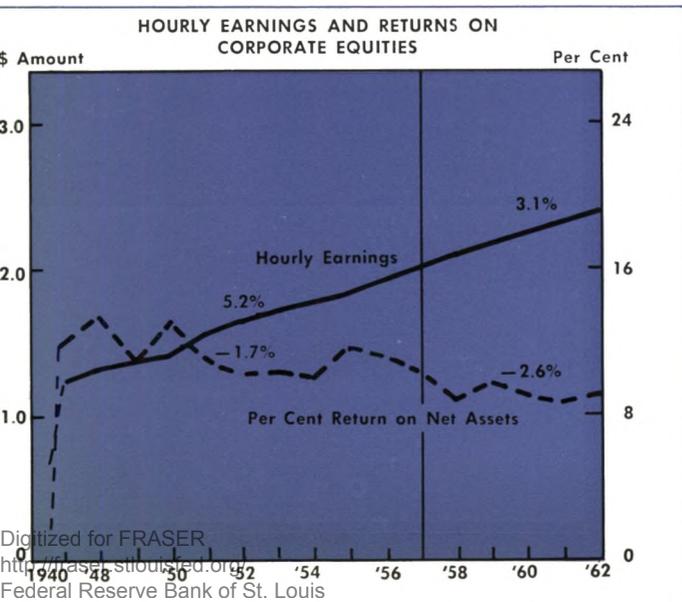
A number of factors have been responsible for the unsatisfactory performance of corporate profits. As the economy moved toward stability in the general price level, the artificial and unhealthy stimulus to demand which inflation affords was removed. This, together with the increase in producing capacity already noted, intensified domestic competition at the same time that competitive pressure from abroad was being stepped up. As a result, it became increasingly difficult for United States producers to pass on increased costs by raising prices. Meanwhile costs, especially those represented by wages and taxes, continued to move up steadily. Recently annual wage increases have been smaller than they were ten years ago, coming down closer to the figures representing increases in productivity.

In the tax area, the indirect taxes (which here mean all those other than income taxes) have increased more rapidly than corporate revenues. Regarding income taxes, it should be remembered that in 1950 the Federal Government raised the rate on corporate income to a level 30% above the highest rate reached during World War II and it has re-

mained there ever since. This raised the standard rate to 52% and, as President Kennedy noted last January, made the Federal Government the "senior partner in business profits."

This hasty review has touched on some of the reasons for the poor performance of corporate profits. It raises a question as to why policies which promoted those results were deliberately pursued. Perhaps the basic reason is the entrenched strength of the notion that consumer demand is the all-important factor in the economy and that costs of production are distinctly secondary. As Professor Arthur F. Burns stated not long ago: "Many of us have become accustomed to attribute every drop in general economic activity—more recently also every sign of sluggishness in the rate of economic growth—to a deficiency of aggregate demand, and we are therefore apt to urge the government to compensate for any deficiency that we believe exists. This way of thinking is often sound, practically useful, and socially beneficial. It rests, however, on an excessively simple view of the economic process." Among other things, it denies the importance of, and detracts attention from, what is probably the most difficult problem in a business environment characterized by stable or falling prices—that of keeping costs down.

The exaggerated emphasis on aggregate demand fosters, encourages, and justifies annual wage increases without regard to productivity. It also calls for steeply progressive individual income tax rates and a high tax rate on corporate income. Under policies dictated by this attitude, the incomes of consumers and governments have increased steadily as the charts have shown. But in so doing they have contributed to the well-known "profits squeeze." This squeeze, in turn, by holding down employment in the face of a growing labor force, has pushed up



the rate of unemployment, has discouraged business investment, and has probably aggravated the deficit in the balance of payments.

Unemployment—Some Causes The causes of unemployment are many and complex. All that can be done here is to list a few of them with a minimum of comment. Among the most important causes undoubtedly is technological change, which has speeded up dramatically in recent years. At one end of the scale, technological change destroys jobs, often in large numbers, while at the other end it may create more jobs than can be filled because of lack of the necessary training. For several years there have been persistent shortages of workers in a wide range of skills associated with automation. Another important cause is geographical and industrial immobility—the reluctance of workers to leave their home community or the industry with which they are familiar. If husband and wife are working in different industries they may be especially reluctant to move, since both may not be able to get jobs in the new environment. A deficiency of total demand, because of improper monetary and/or fiscal policies may be the cause of unemployment. This is the cause most often discussed and for which remedies are most often prescribed.

On the other hand, fiscal policy may cause unemployment even though its purpose may be the opposite. Consider this very brief and extreme illustration. Suppose that the personal exemption under the income tax were doubled to increase consumer purchasing power and that, to compensate for the loss of revenue, a tax of 75% were levied on all individual incomes above \$25,000 and on all corporate income. Can there be any doubt as to the effect on employment?

Wage policies and practices and social legislation may also contribute to unemployment. Minimum wage laws which ignore basic market factors may exclude from employment a substantial number of people whose productivity is below the minimum wage. Fringe benefits and labor relations may cause some to be unemployed while others work longer hours. The cost of fringe benefits varies with the number of employees rather than the number of hours worked, so it may be profitable for the employer to work his employees overtime rather than hire the unemployed and thus raise his fringe benefit cost.

Certainly the level and trend of wages must be considered in the search for causes of unemployment. As business profit margins narrowed in recent years, it was natural and inevitable that employers should cast about for methods of reducing costs. Wages

and salaries usually constitute the largest component of a company's cost; it is also the major component which has increased most. It is one of the most basic principles of economics that when one factor of production is relatively more costly than others, producers will economize in the use of that factor. Under conditions prevailing in the labor market in the past 15 years, producers have had relatively little control over the price of the labor they employ; their principal alternative has been to reduce the amount of it they use. Therefore, high wages have stimulated, even forced, producers to carry on production with the least possible amount of labor.

The saving of labor is usually accomplished either by improving techniques or by using more machinery, or both. In this respect producers have been favored during the past five years by the fact that machinery prices have been quite stable. An accompanying chart shows that from 1947 to 1957 average hourly earnings in manufacturing and prices of machinery and equipment moved up roughly together. But since 1957 hourly earnings have risen at an annual rate of over 3% while machinery prices have flattened out; over the five years they rose at an annual rate of only 1% and for the past three years they have been almost completely stable. It may be possible that we are approaching a situation in which "machines make machines." With this increasingly favorable ratio between wages and machinery, it would be only natural to expect that producers would favor production techniques that use a maximum of machinery and a minimum of labor.

Business Investment In the first ten years after the war expenditures for new plant and equipment increased at an annual rate of about 6%. In the past five years there has been almost no increase. Further, a large majority of the expenditures in the past five years was for replacement and modernization rather than for expansion of capacity. Last year's McGraw-Hill survey of business investment plans stated: "Perhaps one of the most striking findings of this survey is that once again manufacturing firms plan to devote 70% of their investment to replacement and modernization. This is roughly the same proportion they have devoted to such purposes every year since 1958." The pressure of rising costs has forced producers to install cost-cutting equipment in order to economize labor; thereby creating unemployment. But the profit outlook has not been sufficiently encouraging to induce them to make substantial new investments in order to expand capacity which was necessary if new jobs were to be created for a growing labor force. Beyond this

immediate effect, new business investment plays a most strategic role in the economy as a whole. It is ordinarily the principal channel through which savings are put to work and through which the income multiplier operates. In this light, the very low rate of growth experienced by expenditures for new plant and equipment over the past five years appears as one of the major reasons for the relatively slow growth in the economy as a whole.

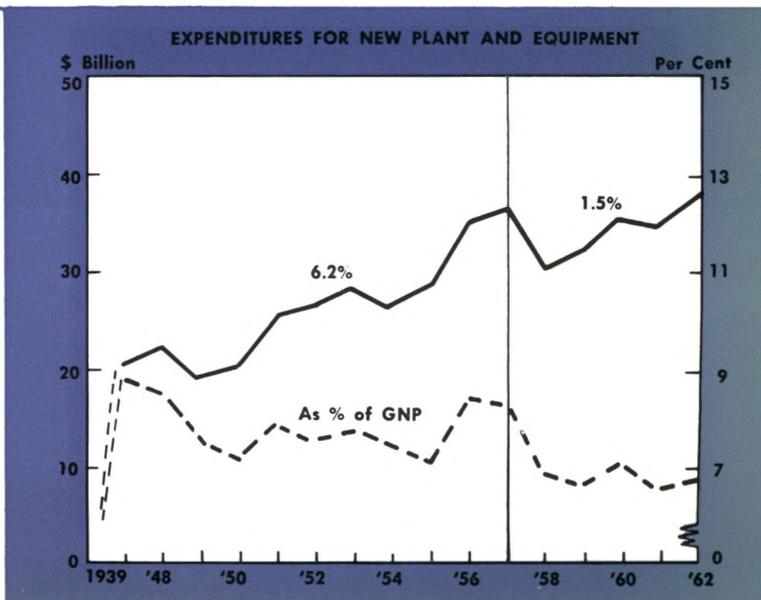
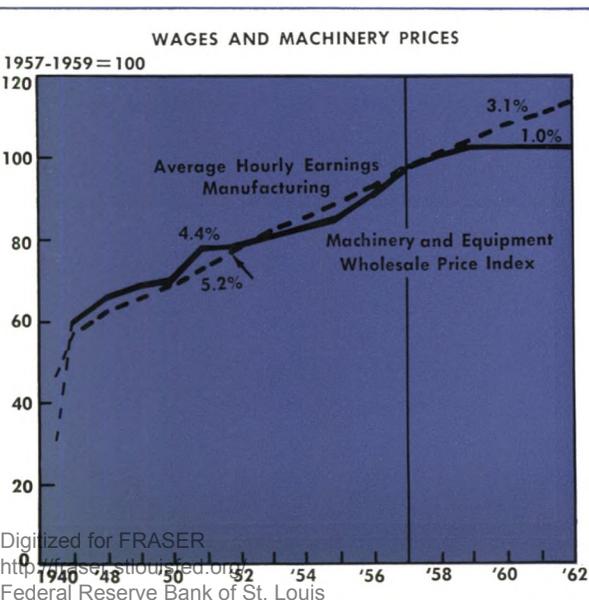
Balance of Payments The problem presented by the deficit in the balance of payments is a most complex and difficult one. This also, like unemployment, must be treated in summary and superficial fashion. It may be profitable, first, to note some relationships between the different accounts in the balance of payments and then to look for some causes.

First, it is pertinent to note that the deficit is *not* caused by an unfavorable balance on private trade and services accounts. Surpluses in that area usually run between four and eight billion dollars per year. Second, Government outlays abroad have been a major factor affecting the deficit. Military expenditures in foreign countries and Government loans and grants have been running at a level of six to seven billion per year. It is not correct to say that these outlays are *the* cause of the deficit since they are only a part of our total spending abroad. It is pertinent to note, however, that these outlays are relatively inflexible, that they are determined by political considerations, and consequently are less affected by the operation of economic forces than are other forms of spending or lending. In recent years the effect of economic aid to foreigners on the balance of payments has been reduced significantly by the practice of "tying" the aid; that is, by requiring that the aid be taken in the form of goods rather than dollars. In this way the money is spent in this

country and dollars cannot get abroad to increase the claims of foreigners on this country.

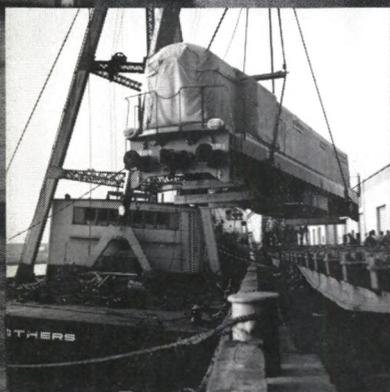
The third and final major area is that of private capital movements. In recent years outflows of long- and short-term capital funds have fluctuated widely but have usually been between two and four billion dollars. Again, it is not correct to say that these are *the* cause of the deficit, although in a given period they may be responsible for most or all of the change which takes place. Last August Secretary Dillon stated that the recent increase in the deficit ". . . is due almost entirely to the accelerating outflow of long-term portfolio capital into new foreign issues," and cited figures to show that this was true for 1962 and the first half of 1963.

It is possible to point out one significant relationship between the developments described earlier and the deficit in the balance of payments. Domestically we have had a rather low rate of economic growth, high unemployment, and a low level of capital investment. To counteract these forces and foster a more vigorous rate of growth, we have followed a relatively easy money policy. During the past three years, when our international problem has been most acute, interest rates in the United States have been low relative to those in Europe. This difference in interest rates, coupled with the fact that we have the world's largest, best organized, and most unrestricted capital market, has led to outflows of both long-term and short-term funds. And those outflows have been a major factor in the balance of payments problem. In a nutshell, the American market has been a good one in which to borrow because of favorable interest rates, but it has not been a good one in which to invest because of a low and declining rate of profits. So both Americans and foreigners have borrowed here and invested abroad.



Monthly Review looks at . . .

THE PORT



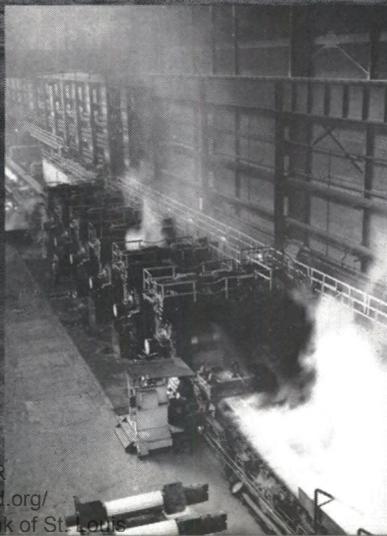
At Baltimore heavy cargo is transferred with confidence. The port handles heavy lifts efficiently and economically.

Some 145 ships entering or leaving Baltimore's harbor daily evidence the port's significance in domestic and foreign trade. For many years Baltimore has ranked among the top five American ports in the amount of freight traffic handled. Its facilities for handling heavy cargo and for direct transfer to rail and motor carriers, along with its proximity to mid-western industrial centers, have gained for the port a reputation as "Economy Port, USA."

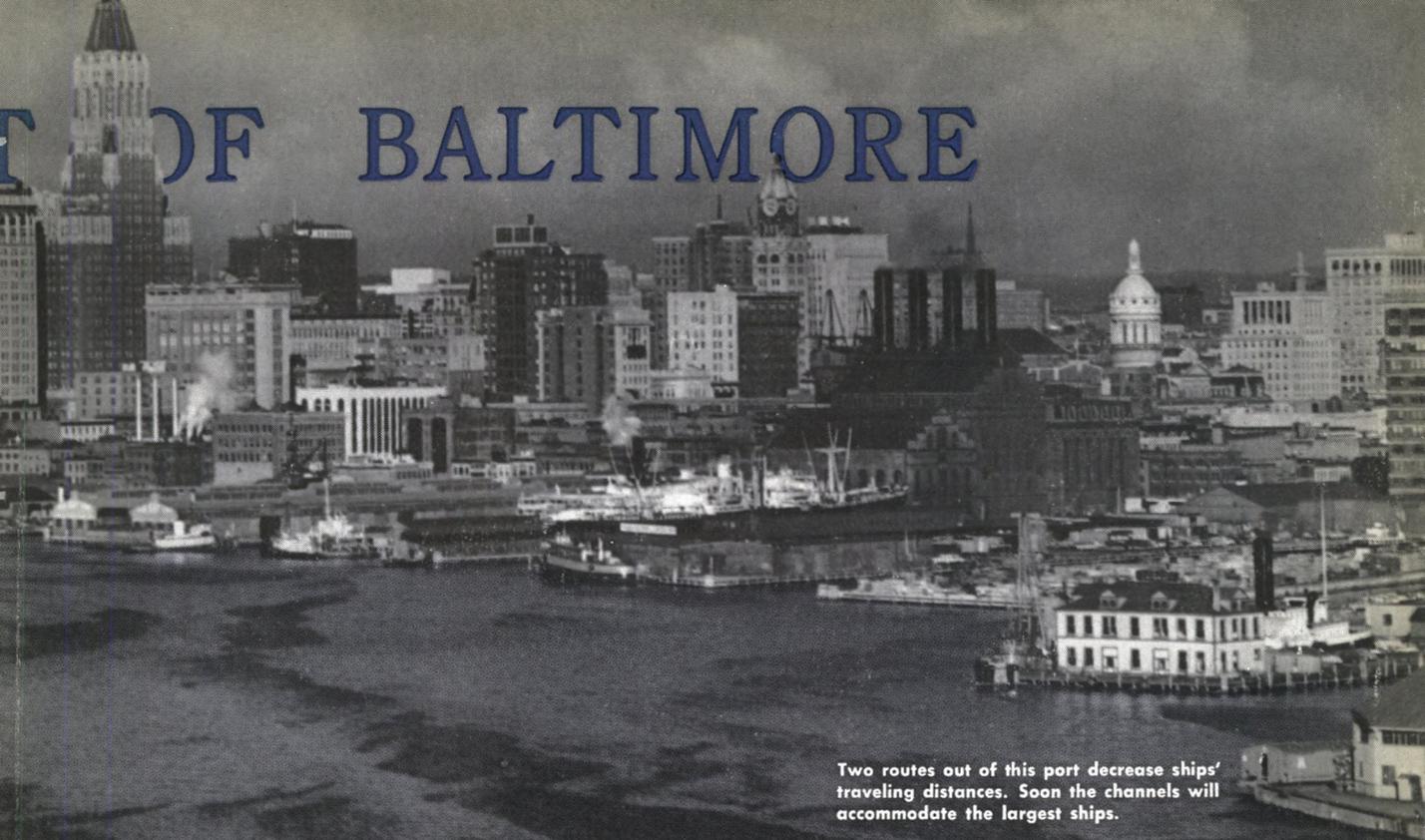
Vessels may enter or leave Baltimore by either of two routes. One leads to the north up Chesapeake Bay, through the Chesapeake and Delaware Ship Canal, and out Delaware Bay, a total distance to the open sea of 125 nautical miles. The other moves southward down Chesapeake Bay and around the capes, 150 nautical miles. Both routes are currently being deepened and widened.

While docked at one of the port's 270 piers, a ship may arrange for repairs with one of four major and several minor shipbuilding and repair companies. The port is famous for its "jumboizing" process, which may enlarge a ship's cargo capacity by as much as one-half. Tidal variation at Baltimore's natural harbor is negligible, averaging only 14 inches per year. Moreover, this port, which is located 150 miles inland, is better protected from storms than harbors situated closer to the open sea.

A continuous flat strip of hot steel, called skelp, moves rapidly through Bethlehem Steel's Sparrows Point Plant.



T OF BALTIMORE



Two routes out of this port decrease ships' traveling distances. Soon the channels will accommodate the largest ships.

Baltimore's varied and growing industrial complex is a drawing card for the port's trade. Reflecting the location nearby of the world's largest tidewater steel plant, the major import commodity in 1960 was iron ore. Similarly, rolled and finished steel mill products topped the export list in value. Other large industries figuring in the port's trade include sugar, copper, chemicals, coal, fertilizer, and petroleum.

More than half of total traffic is foreign. Over 115 foreign countries regularly trade through the port, and out-bound ships went to more than 300 foreign ports in 1960. The United Kingdom was the leading country in the port's export activities, while Venezuela was its principal import supplier.

Baltimore was established as a port of entry in 1706, on the site where Fort McHenry now stands. Its development as a modern port can be attributed largely to the railroads serving the area. For decades the railroads owned and operated or leased the warehouse, dock, pier, and other facilities. In 1956 the Maryland Port Authority was created, assuming responsibility for port renovation, expansion, and promotion. The Authority has since undertaken to expand the main ship channels. It has also built a 365-acre public marine terminal, for which it plans immediate additions. Long-term plans call for a marine fire station, a civic center in the inner harbor area, and extensive improvement in cargo pier facilities.



Shipbuilders launch a "midbody"—part of the "jumboizing" process. A ship is cut in half and a "midbody" inserted.



FIFTH DISTRICT INCOME, 1962

Fifth District income earners moved up the ladder of affluence in 1962 at a pace considerably ahead of the national average. Data released recently by the Department of Commerce show that District states fared well, on both a total and a per capita basis, in the distribution of the largest national gain in personal income since 1959. The data also indicate a continuation of important postwar trends in sources of income in the District.

National and Regional Gains For the nation as a whole, personal income—the most comprehensive measure of economic performance available on a state or regional basis—rose 6% last year to a record high of just under \$440 billion. Over the past six years, this percentage increase has been exceeded only by a 6.7% rise in 1959. In absolute terms, last year's gain, which amounted to \$24.7 billion, was the largest since 1951. Allowing for a 1% rise in prices, these figures indicate an increase in real purchasing power of about 5%.

The relatively large increase in 1962 reflects a general expansion in activity that was distributed with fair uniformity both geographically and industrially. Income reached record levels in each of the eight geographic regions distinguished in the Department of Commerce statistics and also in each of the 50 states and the District of Columbia. Regionally, gains ranged between 5% in New England, the Mideast region, the Great Lakes states, and the Southwest to 8% in the Rocky Mountain and Far West regions.

Fifth District States For the purposes of this article the Fifth District is treated as including six northern panhandle counties in West Virginia that properly are part of the Fourth Federal Reserve District. With this minor imprecision, total personal income in the Fifth District last year increased 7.4% or \$2.4 billion to a total of \$34.7 billion. Thus the District, which accounted for roughly 8% of the nation's personal income in 1961, realized about 10% of the national gain in 1962. The percentage rise in the District was greater than that in all the Department of Commerce's regional classifications except the Rocky Mountain and Far West regions, which were only slightly higher.

Within the District, Virginia led in total income growth both absolutely and proportionally with a

gain of \$666 million, or 8.6%. At the other extreme, West Virginia's total income expanded by only \$87 million, or slightly under 3%. All other District states and the District of Columbia experienced increases of 7% or more, with South Carolina exceeding 8% and Maryland only slightly under that figure.

Per Capita Figures On a per capita basis, the experience of District states in 1962 compares even more favorably with the rest of the country. For the entire District per capita income rose 6.2%, or \$119. This compares with a 4.4%, or \$99, gain nationally and was higher than the percentage increase in any of the Department of Commerce's regional classifications, which ranged between 2.4% in the Southwest and 5.9% in the Plains.

Increases in per capita income within the District ran from 4.6% in West Virginia to 7.4% in South Carolina and were smaller than the percentage increases in total income in every state except West Virginia. The latter fact reflects, of course, continuing population increases in all parts of the District except West Virginia. A population decline of an estimated 1.8% in the latter state was responsible for the larger increase in per capita than in total income. Absolute and percentage gains in both total and per capita income by states in the District, compared with national and other regional gains, are shown in the table of figures on page 9.

District Income Sources Analyzed by industrial sources, changes in income shed light on the direction and pace of structural changes in the economy. For example, far reaching changes in the Fifth District economy over the last two decades are reflected in the growing proportion of income arising in the manufacturing, government, and services sectors and a sharp decline in the fraction originating in farming. Analysis of the 1962 changes in Fifth District income earned by civilians engaged in current production indicate a continuation of this long sustained shift of emphasis in the District's economic activities.

Civilian income earned in current production is total personal income exclusive of transfer payments, property income, and the earnings of military personnel and makes up roughly 80% of personal income. For the District as a whole it amounted to \$27.3 billion last year, an increase of \$2 billion over 1961. Of

PERSONAL INCOME, FIFTH DISTRICT AND UNITED STATES, 1962

	<u>Total (\$ millions)</u>	<u>Per Cent Increase from 1961</u>	<u>Per Capita (dollars)</u>	<u>Per Cent Increase from 1961</u>
District of Columbia	2,524	7.0	3,219	6.3
Maryland	8,562	7.9	2,683	6.3
Virginia	8,428	8.6	2,018	6.6
West Virginia	3,210	2.8	1,810	4.6
North Carolina	8,195	7.4	1,732	5.7
South Carolina	3,763	8.3	1,545	7.4
Fifth District	34,682	7.4	2,029	6.2
United States	439,661	6.0	2,366	4.4

* Includes 6 West Virginia counties located in the Fourth Federal Reserve District.

this gain, manufacturing accounted for \$552 million, or 28% ; government (Federal, State, and local) for \$427 million, or nearly 22% ; and the service industries for another \$337 million, or 17%. The three sectors combined thus provided two-thirds of the increase. The chart on the following page shows the distribution of the total gain over 11 major industrial classifications.

While farm income rose \$20 million last year, agriculture's proportion of civilian income earned in current production declined to 5.1% from 5.4% in 1961. This fraction was 6.8% as recently as 1958. Mining income also continued to decline in relative importance last year although it recorded an absolute increase of \$2 million, the first such increase in four years. Absolute increases in income from wholesale and retail trade and contract construction were the largest from these two sources in recent years.

Over the four years 1959-1962, inclusive, manufacturing, the service industries, and government have accounted for \$4.4 billion, or 72%, of the District's \$6 billion increase in civilian income earned in current production. Wholesale and retail trade provided about half the remainder. Incomes from both farming and mining were actually smaller in 1962 than in 1958.

Sources of State Gains Manufacturing accounted for a large fraction of the 1962 gain in each of the five District states. Additional income from this source was greatest in absolute terms in North Carolina (\$188 million), Virginia (\$145 million), and South Carolina (\$107 million). In percentage terms South Carolina and Virginia led the District, each

recording an increase over 1961 of about 11.5%. Manufacturing income rose \$73 million in Maryland and \$39 million in West Virginia.

Income gains from government activity were greatest both absolutely and proportionally in Virginia, where they totaled \$157 million and were more than 11% higher than in 1961. This source accounted for more than one-fourth of the total 1962 gain in civilian income from current production in that state. It accounted for a like fraction of the total gain in Maryland and, as would be expected, an even larger fraction (nearly 41%) in the District of Columbia.

Service income grew most rapidly in Maryland and Virginia, although gains from this source were substantial in all states and the District of Columbia as well. Wholesale and retail trade also made important contributions to the 1962 gains in all parts of the District, with income from this activity expanding especially rapidly in the Carolinas and Virginia. More than two-thirds of the Fifth District's income gain from contract construction was concentrated in Maryland and Virginia.

Farm income declined last year in West Virginia and Maryland, in each case by \$8 million. These declines were more than offset by increases in the Carolinas and Virginia. In percentage terms, the gain in farm income over 1961 was greatest in South Carolina, where it came to just over 5%.

Income from finance, insurance, and real estate, a relatively small though rapidly expanding area of the District's economy, recorded notable gains last year in Virginia, Maryland, and North Carolina. The same states also experienced sizable increases in in-

come from transportation and from communications and public utilities. Gains from these sources in other District states were minor.

Other State Highlights Manufacturing was the chief source of civilian income earned in current production in 1962 in all states of the District except Virginia and the District of Columbia. It accounted for 35.5% of such income in South Carolina, slightly over 32% in North Carolina, 30% in West Virginia, and a shade over 23% in Maryland. The same fraction for Virginia was just over 21%, while for the District of Columbia it was less than 3%. Since 1958 the relative importance of manufacturing as a source of income has increased in the Carolinas and the Vir-

ginias but has declined somewhat in Maryland and the District of Columbia.

Government activity was the largest single source of civilian income last year in Virginia and the District of Columbia. Such activity accounted for 23% of total civilian income earned in current production in Virginia and nearly 47% in the District of Columbia. For Maryland, this fraction came to 22%, while in the remaining Fifth District states it ranged between 10% and 13%. As a source of civilian income, government activity has gained steadily in relative importance since 1958 in all parts of the Fifth District except South Carolina and the District of Columbia.

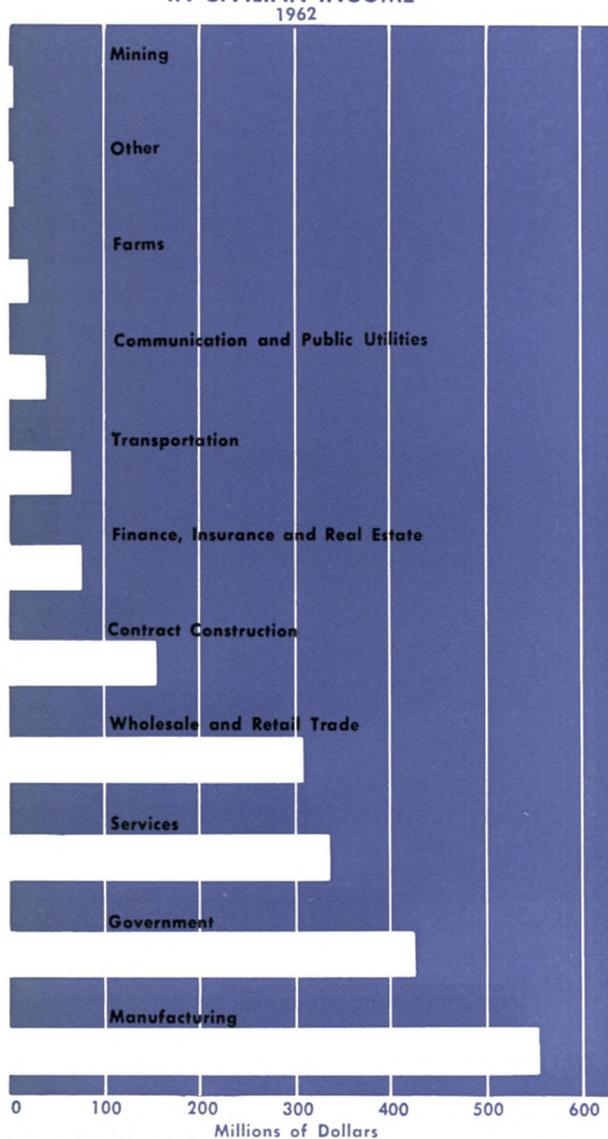
Services accounted for 22% of total civilian income in the District of Columbia and nearly 14.5% in Maryland. Elsewhere in the District, the same fraction ranged between 10% for West Virginia and 13% for Virginia. For all District states, the services sector has been the most rapidly expanding source of income since 1958.

Despite its general decline in relative importance, farming remained an important source of income last year in the Carolinas. It accounted for 11% of civilian income earned in current production in North Carolina and 8% in South Carolina. This fraction has declined steadily in these two states, however, as in all other District states, in recent years.

Mining was a significant source of income last year in only one District state, West Virginia, where it accounted for 12.5% of civilian income earned in current production. It accounted for less than 1% in the Carolinas and Maryland and only slightly more than this percentage in Virginia. Mining income has declined steadily in relative importance in West Virginia but it may be significant that the pace of this decline slowed perceptibly last year.

Summary Personal income in all Fifth District states was at record levels in 1962. All District states experienced substantial income gains, although the increase in total income lagged in West Virginia. On a per capita basis, however, the gains were distributed with fair uniformity. For the District as a whole per capita income rose relatively more rapidly than the national average. District per capita income as a fraction of the national per capita figure rose for the seventh year in a row. This fraction last year was nearly 86%, compared with 81% in 1953. Accompanying last year's gain was a continuation of basic changes in the pattern of income sources. In particular, farming and mining continued to decline in relative importance, with such sources as manufacturing, services, and government accounting for steadily growing fractions of District income.

**SOURCES OF FIFTH DISTRICT GAINS
IN CIVILIAN INCOME***



*Earned in Current Production
Source: Survey of Current Business, August 1963.

THE FIFTH DISTRICT



In the industrial economy of the Fifth Federal Reserve District the importance of textiles is as plain as the red brick mills that dot the green landscape. In coastal areas of South Carolina the industry is of little significance. But moving northward, especially through the lower Piedmont, its importance rises sharply, reaching a peak in North Carolina, and tapering off again to nominal significance in northern parts of the District. While there is little need to bring in published data merely to add emphasis, statistics are useful to highlight the industry's many interesting features.

Distribution By States In South Carolina's industrial directory, textile mills occupy more than seven of 65 pages, with some 55 names on each page. Firms in closely related lines—apparel, textile machinery and machine parts, synthetic fibers, chemicals, and dyes—fill many additional pages. Statistics for 1962 show 134 thousand South Carolinians on textile payrolls, more than one-fifth of all nonfarm employment in the Palmetto State and over half of manufacturing employment. Jobs and income generated in textile-related activities further magnify the industry's local significance.

Textile mills are most numerous in North Carolina's Piedmont region. In the Tar Heel State's industrial directory, textile plants fill 42 of the 200 pages that list the state's manufacturing establishments, with 25 names on each page. The directory also lists many makers of apparel and related products and many machinery and chemical manufacturers serving primarily the textile business. Jobs in the textile industry proper averaged 227 thousand in 1962, nearly half of all Tar Heel manufacturing employment and almost one-fifth of all jobs in nonfarm businesses. North Carolina's textile complex is considerably larger than South Carolina's, but the industry's relative importance as a source of employment and income is slightly smaller.

Though not on a par with the Carolinas, Virginia's textile industry is substantial. In the Old Dominion, textile firms typically employed around 37 thousand during 1962, one in every eight factory workers and one of every twenty-nine nonfarm wage and salary

employees. By contrast, the combined textile employment of West Virginia and Maryland amounts to little more than four thousand.

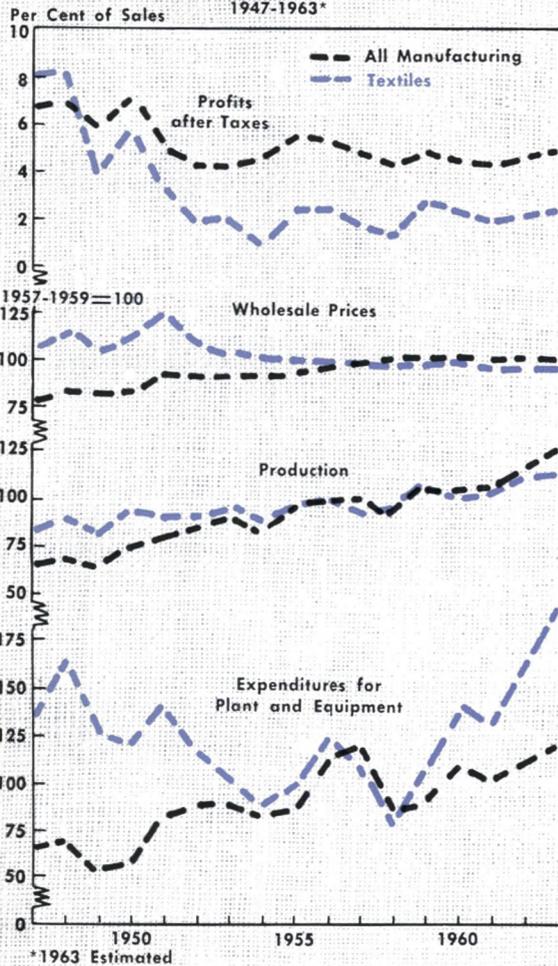
Regional and National Status In the Fifth District as a whole in 1962, textiles provided more than one-fourth of the manufacturing jobs and one-twelfth of all nonfarm wage and salary employment. Textile jobs in the entire nation number little more than twice the Fifth District total. Nevertheless the industry's national significance is considerable. Nationally in 1962, the industry's 903 thousand workers accounted for one of every 19 manufacturing employees and one of every 62 nonfarm wage and salary workers. Four cents of every manufacturing income dollar and one cent of every national income dollar originated in textile manufacturing. Enterprises supplying the domestic textile industry, furthermore, represent many more thousands of jobs and millions of income.

Textile Trends Differ Since World War II textile production has increased, but the rise has been considerably smaller than in most other manufacturing industries. In textiles, contrary to manufacturing trends generally, both prices and employment have declined. The postwar downtrend in manufacturing profits was more pronounced in textiles than in most other lines. While the profit slide flattened out after 1958, after-tax profit rates on sales in textiles have recently been about half the average for all manufacturing.

In the face of dwindling profits, textile producers spent less and less on new plant and equipment in the early and middle 1950's. Intensified competition, both foreign and domestic, stimulated research efforts, however, and after 1958 investment outlays began to rise, chiefly for more efficient and more versatile equipment. With the handwriting on the wall, textile plant and equipment outlays have risen every year since then except for a slight drop in 1961.

Rising Efficiency Between 1947 and 1962 national employment in textiles fell almost one-third while textile mill output, measured by the Industrial Production Index, rose more than one-third. Currently rising outlays for new plant and equipment ap-

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pear to confirm these trends at least for the next year or two. Outlays last year just about matched the postwar record (1948) and will reach a new high this year. Investment in 1963 will be about twice as great as in 1959 and three times the 1958 figure which marked the postwar low. Wholesale prices, fairly stable for several years, have recently shown some inclination to rise. Efforts to control costs appear to be succeeding, and profit margins, although still well below the average for other manufacturing industries, have inched upward.

International Aspects Problems facing the textile industry have important international overtones. Imports of textiles and finished textile products have trended steadily upward, and textile exports have declined. A number of new developments in automated equipment, special processes, and new fibers have originated in foreign countries. Recently attention in this country has been focused principally

on tariff negotiations to restrict imports and on the so-called two-price cotton situation, which enhances the competitive advantage of foreign producers. Foreign users can buy American cotton eight cents per pound cheaper than American users. Originally designed to encourage raw cotton exports, this eight-cent export subsidy has now become an important issue in the competitive struggle between domestic and foreign producers and has caused some shifting domestically from cotton toward synthetics, although the former remains the major raw material.

A glance at the figures lends needed perspective to these trends. Detailed statistics on some parts of this large and diverse industry are limited so that generalizations applying to all its phases are difficult to formulate. Certain sectors, however, can be covered quite adequately. In cotton textiles, for instance, domestic production in 1962 was nearly 11 billion square yards. Cotton textile exports in the same year amounted to 415 million square yards, and imports reached 464 million square yards, exceeding exports by 12%. Exports in 1962 were 3.8% of production and imports were 4.2%. These figures, however, do not take account of trade in apparel and other articles made of cotton fabric. With the help of special conversion factors developed by the Department of Commerce, the square-yard equivalent of such items imported has been estimated at some 700 million square yards. This brings the cotton goods imports figure to 11.5% of domestic production.

These trends appear to be well established in the record of the recent past, but could be sharply altered by any of a number of developments. Cotton textile production was only 4% higher in 1962 than in 1952 in contrast to a 23% gain in textiles generally; and the cotton trend has been downward since 1959. During the same decade exports of cotton textiles dropped 45% and imports, not counting the square-yard equivalent of miscellaneous manufactured items, increased about twelvefold. If imports can be checked while further cost reductions are achieved through current investment and possibly also through elimination of the two-price system, more favorable trends may be expected in the future.

CREDITS

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