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REVIEW



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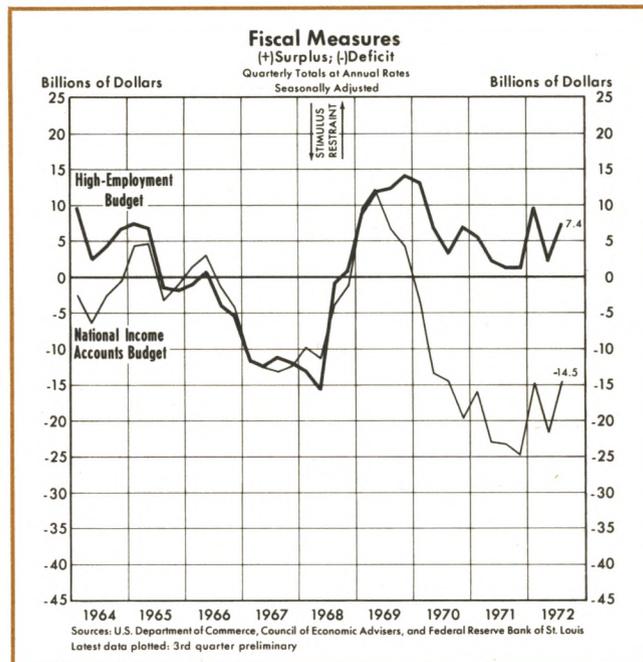
The Federal Budget: From Surplus to Deficit

THE MAGNITUDE of the Federal budget deficit has been in the spotlight in recent discussions of economic trends and prospects. Analyses of the Federal budget indicate the likelihood of continuing deficits for the next several years, given the current structure of tax rates and existing Government spending programs.¹ Just a few years ago the concept of "fiscal drag" was used to describe the tendency of the budget toward chronic surplus.² Why has there been a shift in the assessment of the outlook for the Federal budget?

The purpose of this note is to give a brief quantitative summary of the factors which have contributed to the change in the budget position since early 1969. These factors are divided into two primary effects: (1) a *discretionary* effect relating to changes in tax rates and expenditure programs, and (2) an *economic activity* effect relating to the effect of the degree of resource utilization on the size of the tax base and the amount of unemployment benefits. The first half of 1969 is chosen as a base for comparison because this period represents both a high-employment level of economic activity and the most recent peak in the time series of the net Federal budget position (the excess of receipts over expenditures).³ Since early 1969, some tax rates have been reduced, expenditures have continued to increase, and the rate of resource utilization has remained below the level attained in that period. What is the contribution of each of these factors to the deficit as it currently exists, and, given this background, what is the outlook for the Federal budget?

Factors Contributing to the Current Federal Budget Deficit

The Federal budget (national income accounts basis) moved from a \$10 billion annual rate of surplus in the first half of calendar 1969 to an \$18 billion rate



of deficit in the first half of 1972. The following tables provide estimates of the contributions of various factors to this shift from surplus to deficit.

Table I gives the Federal budget for the first half of 1972 if the economy had continued to operate at high-employment levels and the expenditure and revenue relationships of the first half of 1969 had been maintained. In other words, given the schedule of tax

Table I
 Conditional Budget A — First Half 1972
 (Billions of Dollars)

Receipts		\$ 256.6
Expenditures		243.2
Defense	101.0	
Nondefense	142.2	
Net Position		\$ 13.4
Hypothetical Federal budget in first half 1972, given actual revenue and expenditure relationships in first half 1969 and assuming high employment		

rates in early 1969, the magnitude of Government expenditures relative to the size of the economy (measured by potential GNP in current dollars) at that time, and the maintenance of a high-employment level of activity, extrapolation of these relationships into early 1972 would have yielded the budget situation as summarized in Table I. A \$13.4 billion rate of surplus would have prevailed, given these hypothetical conditions.

Table II shows the Federal budget at an assumed high-employment level of economic activity, but is calculated by using the revenue and expenditure relationships that prevailed in early 1972. The differences between Tables I and II then, reflect changes in tax rates and expenditure changes relative to the size of the economy. Under these high-employment conditions the budget would have shown a \$6 billion rate of surplus.

Table II
Conditional Budget B — First Half 1972
 (Billions of Dollars)

Receipts		\$244.2
Expenditures		238.2
Defense	77.7	
Nondefense	160.5	
Net Position		\$ 6.0

Hypothetical Federal budget in first half 1972, given actual revenue and expenditure relationships in first half 1972 and assuming high employment

Table III gives the actual budget for the first half of 1972. The differences between Tables II and III represent the effects of a change in the relative rate of resource utilization on the budget. Expenditures and revenues deviated from their hypothetical high-employment values because the economy was operating below that hypothetical level of activity. The budget was in deficit at an annual rate of more than \$18 billion.

Table III
Actual Federal Budget — First Half 1972
 (Billions of Dollars)

Receipts		\$223.2
Expenditures		241.4
Defense	77.7	
Nondefense	163.7	
Net Position		\$ -18.2

The information in Tables I-III is combined in Table IV to summarize the factors which contributed to the shift from a substantial surplus to a substantial deficit. Table IV is interpreted as follows. The surplus was \$31.6 billion less in the first half of 1972 than it would have been if the revenue-expenditure relationships of first half 1969 had been maintained along with high employment. The slowdown of economic activity contributed \$24.2 billion (\$21 + \$3.2) to the \$31.6 billion decline in the surplus (the shift to deficit). The remaining \$7.4 billion (\$12.4 - \$5.0) is attributable to the effect of discretionary fiscal actions. Tax rate changes — reflecting removal of the tax surcharge, the Tax Reform Act of 1969, and the Revenue Act of 1971

— contributed \$20.4 billion toward the decline in the surplus, while overwithholding of personal income taxes acted to increase the surplus (reduce the deficit) at an annual rate of \$8 billion. Discretionary expenditures contributed toward an increase in the surplus by \$5 billion (\$23.3 - \$18.3). This tendency can be attributed solely to the slowdown of defense spending which more than offset the tendency-toward-deficit effects of nondefense expenditure increases.

Table IV
Summary of Factors Contributing to Changes in the Federal Budget
 First Half 1969 to First Half 1972
 (Billions of Dollars)

Receipts		\$ -33.4
Economic Activity Effect	-21.0	
Discretionary Effect	-12.4	
Tax Rate Change	-20.4	
Overwithholding	+ 8.0	
Expenditures		+ 1.8
Economic Activity Effect	- 3.2	
Discretionary Effect	+ 5.0	
Defense	+23.3	
Nondefense	-18.3	
Net Position		\$ -31.6

NOTE: A negative sign indicates the factor was operating to decrease the surplus (increase the deficit). A positive sign indicates the factor was operating to increase the surplus (decrease the deficit).

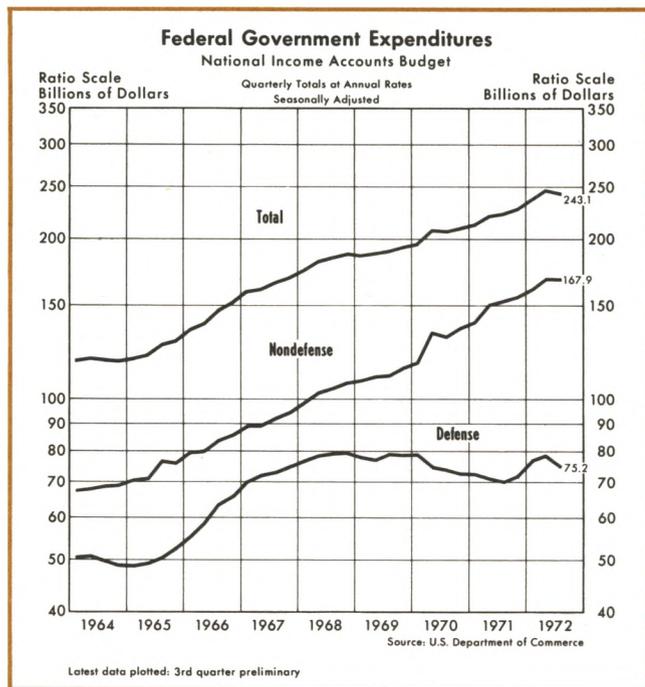
Prospects for the Federal Budget

Given this background of recent budget experience, what are the prospects for the future? Table V gives estimates for 1975 as prepared by the American Enterprise Institute.⁴ These figures are based on the assumption that high employment will prevail in 1975 and that prices will be increasing at a 2.5 percent annual rate. The revenue estimate is based on the prospects for tax rates as of late August 1972. Expenditure estimates represent a projection of existing Government programs along with allowance for pending legislation as of August 1972. Thus the \$21.5 billion deficit represents only a projection of the budget situation at that time and does not allow for possible expansion of Government spending programs.

Table V
Federal Budget in Calendar 1975
 (Billions of Dollars)

Receipts	\$ 292.0
Expenditures	313.5
Net Position	\$ -21.5

⁴Ott et al., *Nixon, McGovern, and the Federal Budget*. The estimates are those for the Nixon Administration's budget which, when based on an assessment in August 1972, is consistent with a \$250 billion estimate of expenditures in



Prospects for the future focus on the expenditure side of the budget. They indicate a substantial budget deficit, even under conditions of high employment, as compared to the hypothetical surplus shown in Table II. Gains in the budget position from reduced defense spending, like those shown in Table IV, do not appear to be in prospect for the future. The existing tax structure would not be sufficient, given existing expenditure programs, to bring the budget into balance, even if the economy returns to high employment.

Stabilization Implications

What conclusions can be drawn? First, the current budget deficit is attributable in large measure to a slowdown in economic activity, but tax changes and a rapid growth of nondefense expenditures have also contributed to the situation. Defense expenditure trends have actually worked to reduce the deficit, mainly due to reductions in Vietnam expenditures.

fiscal 1973. Calendar 1975 is chosen for illustrative purposes because it is far enough into the future to allow a focus on fundamental budget trends while providing sufficient time to actually achieve the assumed high-employment level of activity. The American Enterprise Institute study presents projections through 1980.

Future budget prospects raise questions about the options available to policymakers in dealing with the problem of expenditure growth in excess of receipts. First, there is the option of reducing existing expenditure programs. Second, there is the consideration of growth in new programs which yield an even larger deficit than that shown in Table V, other things equal. Third, there is the option of raising tax rates. Changes in the effective rate for social security taxes are scheduled, but these are not large enough to erase the deficit by 1975. Once the decision about expenditures and taxes has been made, any deficit that remains is financed by the sale of Government bonds to the private sector of the economy, at least initially. However, the ultimate effects of the deficit depend on how much of the Government debt is subsequently monetized by the Federal Reserve System.⁵

The alternative of raising tax rates to increase revenues has to be weighed against any tendency of such an action to perpetuate existing Government programs, whether or not they are justified on a cost-benefit basis. Furthermore, there is the question of whether new programs are scrutinized as carefully when revenues are "available" to be spent.

The alternative of financing the excess of Government expenditures over receipts by debt sales to the private sector means, other things equal, a rise in interest rates in the short run. Monetization of such debt by the Federal Reserve System, on the other hand, reduces interest rates in the short run from what they would otherwise be, but over a longer horizon can lead to more price inflation and, ultimately, higher interest rates. Curtailing growth of new Government programs and cutting back existing programs would be a step in the direction of avoiding higher tax rates, higher interest rates, and more rapid inflation. Such a course of action, however, has to be assessed against the foregone benefits of the programs themselves.

⁵All of the options ignore the feedback of these budget alternatives on the course of the economy. Thus implicitly there is the assumption that monetary actions can be implemented in such a way as to achieve high employment by 1975, given the particular budget alternative which is followed. Comparing the consequences of the budget alternatives probably implies different courses of monetary action. More detailed study of the impact of these various alternatives would probably require the use of an econometric model.



The Economic Outlook

Remarks by DARRYL R. FRANCIS, President,
Federal Reserve Bank of St. Louis,
Before the Financial Analysts Federation Conference,
Cincinnati, Ohio, October 9, 1972*

I AM PLEASED to have this opportunity to present to you my views regarding the economic outlook. My remarks will first be devoted to a brief presentation of the general outlook. Then, I will discuss some of the problems facing the nation because of a Federal budget which is generally acknowledged to be "running out of control." Decisions made in response to these budget problems will have a great effect on the course of our economy over much of the 1970s.

General Outlook

Let us now examine the general economic outlook for the next few quarters. The President's Council of Economic Advisers, in their Annual Report of last January, projected a rapid advance in total spending (GNP) for 1972. They projected strong real product growth and a significant decline in the rate of inflation by the end of the year.

Progress in Achieving the 1972 Forecast

Substantial progress has been made in achieving this optimistic forecast. Total spending has advanced rapidly since late 1971, largely in response to stimulative monetary and fiscal actions taken earlier. Growth in the money stock has been uneven, but has averaged a 7 percent annual rate since early 1971. In comparison, money increased at a 4.5 percent rate from early 1969 to early 1971. Fiscal actions have also been expansionary, with Federal expenditures rising at a 9 percent rate since the first quarter of 1971, faster than the 7 percent rate of increase in the previous two years.

A significant portion of the recent advance in total spending has been manifested in real product growth, with the associated rate of price inflation being mod-

erate. Real product growth accelerated to a 7 percent increase from third quarter 1971 to third quarter 1972, more than triple the increase in the previous year. The rate of inflation, as measured by the GNP price deflator, has been at about a 3 percent rate since mid-1971, compared to a 5 percent increase in the preceding year.

The rapid rise of real product has fostered a strong advance in employment. Payroll employment has increased at a 3.5 percent annual rate since last fall, compared to little growth in the previous year and a trend rate of growth of 2 percent from 1957 to 1971. The relative strength of these employment gains is noteworthy since the population of working force age is estimated to be growing at less than a 2 percent annual rate. Total employment in mid-summer was over 64 percent of the population of labor force age, higher than in the prosperous year of 1965.

These developments through the third quarter indicate that substantial progress has been made toward realizing the Council's goals for 1972. Moderated growth of both total spending and real product in the final three months of the year, and continuation of price increases at about the average rate of the past three quarters would be consistent with attainment of the goals.

Evaluation of Developments in 1972

In evaluating the healthy turn of the economy thus far in 1972, I will now present briefly my views regarding the prospects for sustaining such a rapid expansion of output, the advisability of relying solely on monetary and fiscal actions to bring the unemployment rate down much further, and the contribution of controls to reducing inflation.

First, the very rapid growth of real output in the first nine months of the year is probably not sustaina-

*This presentation has been revised to take into account the most recent data available.

ble over the longer-run. There is some evidence that a slowing has already occurred. For example, real output has grown at a 6 percent rate in the last quarter, compared to an 8 percent growth rate from fourth quarter 1971 to second quarter 1972. Also, industrial production has grown at a 7 percent rate since April, down from a 14 percent rate over the preceding four months. Payroll employment has risen at a 3.6 percent rate since April, after rising at a 4 percent rate from December to April. These slower rates of increase are desirable, I believe, because they are more consistent with preserving the gains that have been made in slowing the rate of inflation than would be an attempt to continue the faster growth rates experienced earlier in the year.

Some will criticize this slower rate of employment growth because the unemployment rate has fallen only to the neighborhood of 5.5 percent. These critics cite as a desirable goal an unemployment rate of 4 percent or less. As laudable as such a goal may be, these critics overlook the costs of attaining such a target through the use of overall economic stimulus. Post-war experience demonstrates that whenever the unemployment rate has moved below 5 percent, inflation has become a serious problem. Given the structure of our labor markets and the way they function, using monetary and fiscal actions exclusively to achieve significant further reductions in unemployment runs a serious risk of renewed inflationary pressure.

On this point I am in agreement with the Chairman of the Council of Economic Advisers, who, in an interview with First National City Bank last August, pointed out that "there are a number of other policies which may be involved in getting the rate of unemployment down..." He indicated that what he had in mind was various types of manpower programs.

Apparently there was a realization of this point when price and wage controls were instituted fifteen months ago as part of a program designed to promote economic recovery and a slowing of inflation. Some have cited the 3 percent increase in the consumer price index for the year ending with September as evidence of the contribution of these controls to price stability. This was down from a 4.5 percent increase in the year prior to controls. It is not clear whether this reduction in the rate of inflation has been due to controls or to natural economic forces set into motion by the monetary restraint of 1969 followed by moderate growth in money in the period immediately thereafter.

I tend to place emphasis on this latter development. Inflation reached a peak in early 1970. In February

of that year the consumer price index was over 6 percent higher than a year earlier. The rate of inflation has been decelerating since then, declining to 4.5 percent in the year ending August 1971 when the controls were imposed. The deceleration in consumer prices was only a little more in the following twelve months than in the year prior to controls.

Outlook Through 1973

With regard to the economic outlook for the balance of this year and through 1973, most private economic forecasters expect a continuation of strong economic expansion through the end of next year. They do not, however, expect the expansion to continue at the rapid rates of earlier this year. These forecasters generally do not expect much further improvement in the rate of inflation. In fact, many forecast the reemergence of accelerating inflation by the second half of next year.

I am in agreement with the general contours of output and price movements projected by most private forecasters. However, the course of monetary expansion, especially as related to Federal budget developments, can alter this outlook considerably.

Our research indicates that the average rate of expansion of the money stock over a period of five or more years is the major determinant of the rate of inflation. This research also indicates that a change in the rate of money growth for a period exceeding two quarters exerts a significant short-run, but temporary, influence on growth in output and employment. So let us look at some implications of recent monetary developments in light of these findings.

Money has grown at a 6 percent trend rate since 1966. Our research indicates that the rate of inflation in the neighborhood of 4 percent expected by many forecasters for late next year is consistent with this trend in money growth. Over a shorter period, money has increased at an 8 percent rate thus far in 1972. If this rate of growth were to continue much longer, I would expect inflation to intensify more next year than is currently forecast. On the other hand, if we were to revert abruptly to a considerably slower growth rate of money, I would expect less expansion of output next year from that expected by most forecasters. You can see the problems facing those who have responsibility for promoting both high employment and price stability.

The Federal Budget and the Outlook

These problems are further complicated by the outlook for the Federal budget. The unified budget

moved sharply from a surplus in fiscal year 1969 to a deficit in fiscal year 1971. This shift from surplus to deficit reflected virtually no growth in receipts while expenditures increased \$27 billion. If the economy had remained at a high level of resource utilization, and if no change in tax laws had occurred, receipts would have been \$40 billion higher than was realized. Almost half of this short-fall in receipts resulted from tax changes following elimination of the income tax surcharge and the Tax Reform Act of 1969. The remainder of the short-fall was due to the slowing in economic activity during the recent recession. Some have cited this move toward budget deficits, which was augmented by further tax reductions in the Revenue Act of 1971, as a desirable development in view of the softness in the economy existing at that time.

The Problem: Budget Deficits

Once getting into this situation, what are the prospects of getting out of it now that economic activity is expanding quite rapidly? In the fiscal year ending June 1972, the deficit was \$23 billion. With increased expenditures for existing programs *only*, including recently enacted revenue sharing, and revenues from existing tax laws, it is generally estimated that the deficit will approach \$35 billion in the present fiscal year. The proposed ceiling of \$250 billion on expenditures, which failed in Congress, would have reduced this deficit to around \$27 billion. This ceiling would thus have contributed little to eliminating the deficit.

Looking further ahead, budget experts outside the government estimate for fiscal year 1975 that existing spending programs and taxing provisions will result in a deficit of \$15 to \$20 billion if we have full employment. I believe, along with many others, that the Federal budget is virtually out of control.

Alternative Solutions to the Budget Problem

Reduce Expenditures — Let us now examine the alternatives which face us as a result of this bleak budget picture. An obvious step would be to get the budget back into balance this fiscal year by cutting Government expenditures about 14 percent. This is considerably more than the 3 percent spending cut implied by the proposed ceiling. In view of the concern expressed over the proposed \$250 billion ceiling and the ever mounting pressures for expanded programs, such a marked reduction in spending is unlikely.

Increase Taxes — A budget balance could also be achieved by increasing taxes. This would require a 16

percent increase in Federal Government tax collections from all sources. This alternative would also be difficult to achieve in view of the pressures for tax relief. Furthermore, it may not be desirable for longer-run control of the budget. I am afraid that expansion of revenues to meet present levels of spending would tend to reduce the prospects for close evaluation of the appropriateness and effectiveness of existing spending programs. Furthermore, such an expansion would tend to establish a bad precedent for evaluating the long-run costs of new programs.

Borrow From Public — If the prospects are not very good for a marked reduction in forthcoming deficits, what are the remaining alternatives? The inflationary impact of the deficits could be reduced considerably by financing the entire deficit by borrowing from the public. To attract the funds required from competing uses would, however, result in a marked rise in interest rates. If past experience is any guide, such a development would be strongly opposed by large segments of the general public and by many politicians.

Accelerate Monetary Expansion — In the face of such opposition, there would be considerable pressure to finance the deficits by another alternative, that is by monetary expansion. This is what happened in the 1965-1968 period when the Federal Reserve System attempted to resist an upward movement in interest rates by acquiring an ever increasing proportion of a constantly growing national debt. Just as in this earlier period, the rate of monetary expansion would accelerate under this alternative, resulting in accelerating inflation and eventually in higher interest rates.

Rely on Controls — In such a case, another alternative is to rely on price and wage controls to reduce the rate of price increase. Such measures, however, merely treat the symptoms of inflation and not its underlying cause, which is a rapid trend rate of monetary expansion. With a rapid rate of monetary expansion, controls would have to become progressively more restrictive if continued progress were to be made in reducing the rate of price increase. Past experience, both here and abroad, indicates that price and wage controls have not been every effective in reducing the rate of inflation for any extended period of time.

Accept Inflation — Some have given up on the fight against inflation, and recommend still another alternative which I find to be particularly objectionable. They suggest that the best course of action at this time is to maintain the present trend rate of money growth and to learn to live with the current rate of inflation.

They argue that once a rate of inflation becomes fully anticipated, as may be possible in the present situation, individuals can take steps to protect the purchasing power of their income and savings from the ravages of inflation. On the other hand, they argue that the short-run costs in terms of reduced output and employment, which would be expected to accompany steps taken to reduce inflation further, would be too great to bear.

I do not accept this alternative. I see no evidence that our labor, commodity, and financial markets are such as to permit all individuals equal opportunity to protect their purchasing power from erosion by inflation. Furthermore, it is not just the case of holding the rate of inflation constant that the country now faces, but the more likely case of accelerating inflation. There is no assurance that the economic policy errors of the past which caused the present inflation will not be repeated. If such errors were repeated after we had decided to try to live with the present inflation, the result would most likely be an even higher rate of price advance.

Seek Economic Stability Without Inflation — There is one final alternative that I would like to present. This alternative is to decide to learn to live with economic stability without inflation. Our research indicates that it is possible, with appropriate monetary actions, to achieve output and employment growth at our economy's potential without inflation. I see no reason to settle for anything less than such a goal. But I realize that attaining this objective in the near future would entail some temporary, transitional costs in terms of somewhat slower growth in output and employment for a while.

The big question remains as to whether or not our people have the intestinal fortitude to bear these short-run costs. These costs of curbing inflation were borne in the late 1950s and early 1960s. As a result, our economy began to experience economic stability without inflation in about 1964. Then a stabilization mistake occurred with the acceleration of Government spending in the mid-1960s. Steps were taken to correct this mistake by a sharp reduction in the rate of monetary expansion in 1966 and again in 1969. Twice, a large portion of the transitional costs of controlling inflation was borne. In each instance the stage was set for a resumption of output growth at our country's potential without inflation, if money growth had been resumed at a lower trend rate. Following 1966, however, prospective short-run costs were deemed to be too great and the trend rate of monetary expansion was accelerated. Following 1969, there was concern over the short-run costs that had occurred, and money growth was resumed at a moderate rate for a while. But then it accelerated and the trend rate established earlier was not altered.

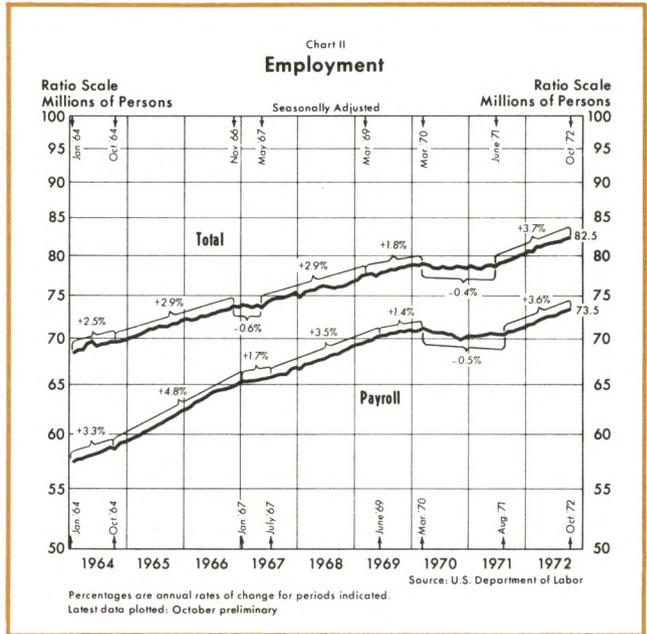
Conclusion

In conclusion, the outlook for 1973 and beyond is for continued strong growth in output and employment. In view of Federal budget conditions, however, there is also a very pessimistic aspect to the outlook. Unless courageous steps are taken to bring Government spending under control, there is a great likelihood of rising taxes, higher interest rates, more inflation, or tougher controls — separately or in various combinations.



Economic Expansion in the Central Mississippi Valley

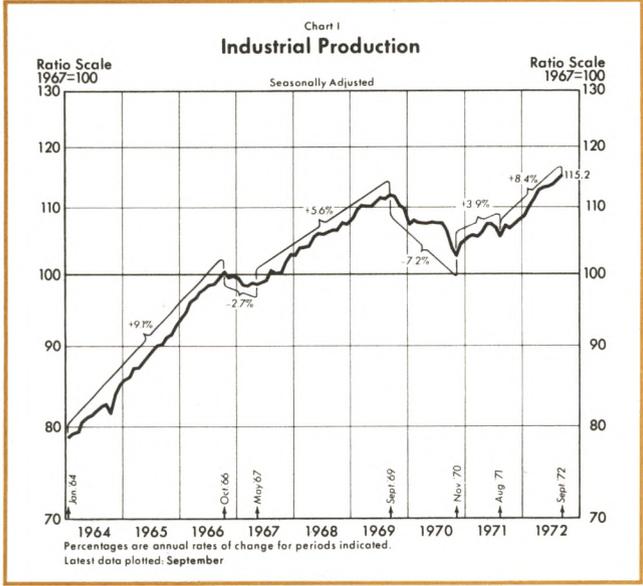
FOSTERED by expansionary monetary and fiscal policies, a national economic recovery from the 1969-70 recession has been in progress for about two years. Most measures of activity reflect a strong improvement from the recession and strike-depressed conditions of late 1970. Industrial production increased at a 3.7 percent rate in 1971, then accelerated to an 8.9 percent rate in the first three quarters of 1972 (Chart I). In contrast, this measure of real output fell at a 5.8 percent rate from mid-1969 to late 1970. Payroll employment, which tends to lag general economic activity, has grown at a 3.4 percent rate since the third quarter of 1971, compared with a 0.7 percent rate of growth in the previous two years (Chart II). Against this background, the following article briefly reviews the economic recovery of the Central Mississippi Valley compared with the nation as a whole.¹



states was less severe than in the nation. Furthermore, the subsequent expansion may have been more pronounced for most of the CMV states than for the nation. This conclusion is evidenced by recent trends in several indicators including personal income, manufacturing employment, and the unemployment rate.

Personal Income

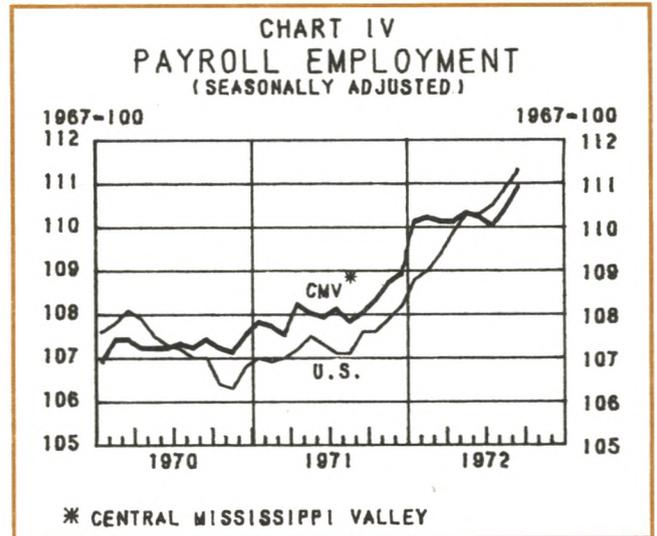
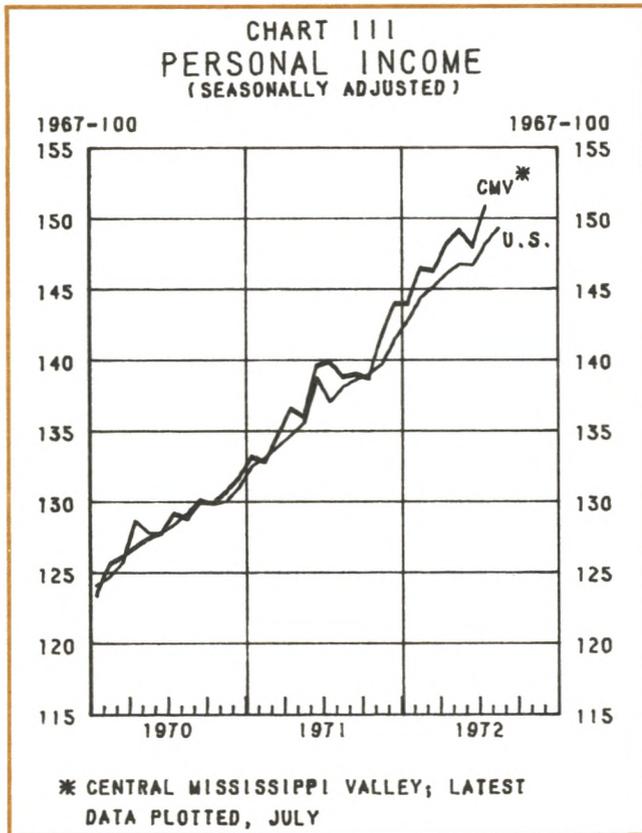
Personal income has grown at a slightly higher rate in the Central Mississippi Valley than in the United States since the fourth quarter of 1970 (Chart III). U.S. personal income grew at an 8 percent annual rate from the fourth quarter of 1970 to the three months ending July 1972. This rate of growth was fairly constant over the period with variations from the trend generally being of small magnitude and short duration. During the same period CMV personal income grew at an 8.8 percent annual rate. Personal income in the CMV grew at an 8.2 percent rate from the fourth quarter of 1970 to the fourth quarter of 1971, compared with a national growth rate of 7.5 percent. From the fourth quarter of 1971 to the three months ending July 1972, CMV personal income growth accelerated to an annual rate of 9.8 percent, compared to the U.S. rate of 8.9 percent.



Region Versus Nation

The Central Mississippi Valley (CMV), like the nation as a whole, underwent a significant slowing in economic activity in the period from late 1969 through 1970. In general, however, the recession in the CMV

¹The Central Mississippi Valley, as used in this article, consists of the states of Arkansas, Kentucky, Mississippi, Missouri, and Tennessee.

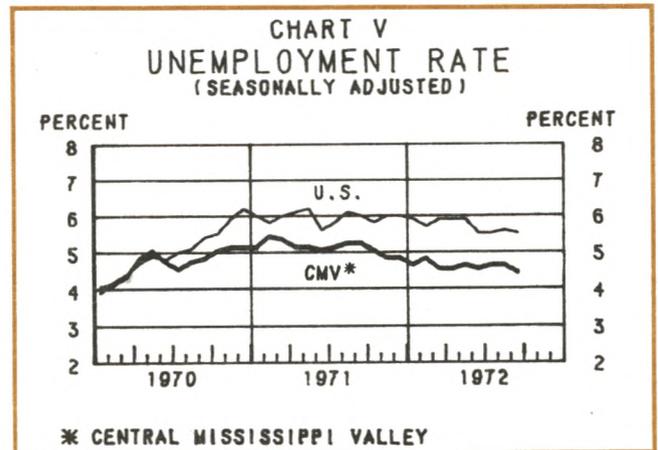


than the nation (Chart V). This contrasts with the 1960s when the unemployment rate for the CMV states was generally greater than the national average.² The U.S. unemployment rate rose to 5.8 percent in the fourth quarter of 1970 and remained about 6 percent through the fourth quarter of 1971 when a downward trend began. The unemployment rate declined to 5.5 percent in September of this year. The CMV unemployment rate rose to a peak of 5.3 percent in the first quarter of 1971. Since then, this rate has generally declined, reaching 4.5 percent in the third quarter of this year. Demand for labor in many CMV communities has now reached a point where businessmen, in response to informal business surveys, report labor shortages.

Employment

Employment in the CMV states has generally risen since the third quarter of 1971. However, total employment in the CMV area has not grown as rapidly as in the nation. This is attributed in part to the long-term decline in agricultural employment which continued through this recession and subsequent recovery. From the trough of the recession in the fourth quarter of 1970 to the third quarter of 1972, total employment in the CMV states and in the nation as a whole has increased at annual rates of 1.1 and 2.5 percent, respectively.

Since late 1970 payroll employment, which excludes agricultural, unpaid family, domestic, and self-employed workers, has increased in the CMV states at an annual rate of 1.6 percent, and at a 2.3 percent rate for the nation (Chart IV). However, manufacturing employment has increased at a somewhat faster pace in the CMV states than in the nation as a whole, but the more rapid national rate of gain in the non-manufacturing sector has more than offset the slower rate of manufacturing employment growth.



Average unemployment figures for the CMV conceal significantly different rates among the states. For example, in the third quarter of 1972 the unemployment rate in Missouri was 5.1 percent, Kentucky was

Unemployment

The CMV states have weathered the recent recession with smaller increases in unemployment rates

²These national and regional unemployment rates are obtained by different survey methods, thus are not necessarily comparable.

5 percent, Arkansas 4.9 percent, Mississippi 4.1 percent, and Tennessee 3.7 percent. Currently, the only metropolitan areas in the CMV states which have unemployment rates greater than the national average are St. Louis and Fort Smith. The rate for St. Louis has generally remained near 6 percent since the fourth quarter of 1970.

Diverse Rates of Expansion in the CMV States

While several indicators show that the expansion following the 1969-1970 recession has been slightly faster on average in the CMV than in the nation, the recovery has been at diverse rates among the various CMV states. Those states in the southern portion of the region with per capita incomes below the CMV average have generally experienced the more rapid rates of expansion. For example, Mississippi, with the lowest income per capita of any state in the nation, has experienced the fastest growth in manufacturing employment of any CMV state. Manufacturing employment in Mississippi increased at the annual rate of 5.7 percent from the fourth quarter of 1970 to the third quarter of 1972 (Table I). Total personal income in Mississippi increased at a 10.4 percent rate, well above the regional and national averages (period ending II/1972). Arkansas, with next to the lowest average per capita income in the nation, also has experienced a high rate of growth; manufacturing employment rose at the rate of 3.5 percent and total personal income at a 10.9 percent rate. Both rates are well above the regional and national averages.

In contrast to the relatively high rates of growth in those CMV states having relatively low per capita incomes, the expansion has been relatively slow in Missouri and Kentucky where per capita incomes are higher. Missouri, with average per capita personal income of \$3,877, almost equal to the national average, has actually had some further decline in total and manufacturing employment since late 1970. Total personal income in Missouri increased at the rate of 7.2 percent from late 1970 to the second quarter of 1972, the slowest rate of growth of the CMV states and well below the national average. Kentucky likewise

Table I
Central Mississippi Valley Economic Indicators

	Personal Income Per Capita, 1971	Annual Rates of Change: IV/1970 to III/1972		
		Total Employment	Manufacturing Employment	Personal Income*
Arkansas	\$3,036	2.0%	3.5%	10.9%
Kentucky	3,288	1.2	1.0	9.2
Mississippi	2,766	2.2	5.7	10.4
Missouri	3,877	-1.4	-0.5	7.2
Tennessee	3,325	3.1	2.0	9.2
CMV	3,258**	1.1	1.8	9.2
United States	4,138	2.5	0.7	8.2

*Personal income from IV/1970 to II/1972
**Unweighted average

Source: Personal income per capita, 1971, from U.S. Department of Commerce, *Survey of Current Business* (April 1972), pp. 18-19. Basic employment data are from the respective State Employment Security Offices and the United States Department of Labor. State personal income data are from *Business Week*.

experienced a relatively slow recovery with total and manufacturing employment rising 1.2 and 1 percent, respectively, and below the national average for total employment.

Summary

The expansionary monetary and fiscal actions since early 1970 have had similar impacts on the Central Mississippi Valley states and the nation as a whole. Total employment growth in the CMV has lagged the national rate of gain, but manufacturing employment has exceeded that of the nation and the unemployment rate has been consistently lower.

The rate of expansion, however, has varied widely among the CMV states. The southern states, where per capita incomes are below average for both the region and the nation, have recovered the fastest. The increase in employment in these states has been confirmed by businessmen. In fact, businessmen in many local communities in these states have reported shortages in both skilled and unskilled labor. In contrast to the sharp gains in the southern part of the CMV, the recovery in Missouri and Kentucky has been less pronounced.



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