DISTRICT ENJOYS STRONG INCOME GROWTH

Aubrey N. Snellings

An examination of recently revised personal income data shows that in the ten-year period from 1966 to 1976, growth in economic activity in the Fifth District outpaced that of the national economy. Over that decade, personal income in Fifth District states grew significantly faster than it did in the nation as a whole, both on a total and a per capita basis. In addition, figures on personal income by source show significant changes in the relative importance of particular industries in District states and in the nation.

Personal Income Data Personal income for a particular state may be looked at in two ways: (1) as the total personal income received by residents of the state, or (2) as the personal income produced by industries located in the state. Since many people live in one state and work in another, these two figures are not necessarily equal for any given state. Thus, in deriving personal income by place of residence, the Department of Commerce begins with total labor and proprietors' income generated by industries located in the state. This figure is adjusted by deducting personal contributions for social insurance by place of work and also by making an adjustment for residence of workers.[1] These adjustments produce net labor and proprietors' income by place of residence. To this is added dividends, interest, rent, and transfer payments received by residents of a state to obtain personal income by place of residence.

Personal income by place of residence is the figure most commonly used in discussions of state income and it is the one that will be used here in reviewing the growth in total and per capita income in the Fifth District. On the other hand, data on labor and proprietors' income by industry provide important information on the industrial structure of a state

[1] This adjustment for residence is particularly important in the Fifth District because so many workers in the District of Columbia reside in Maryland and Virginia. As a result, the District of Columbia had a negative residence adjustment in 1976 equal to more than 57 percent of total labor and proprietors' income. On the other hand, Maryland derived 15 percent of its personal income from outside the state and Virginia about 9 percent.

Table I

PERSONAL INCOME

United States and Fifth District States, 1966, 1971, and 1976

(millions of dollars)

				Percent Change		
	1966	1971	1976	1966-71	1971-76	1966-76
District of Columbia	2,839	3,862	5,662	36.0	46.6	99.4
Maryland	11,652	17,999	28,514	54.5	58.4	144.7
Virginia	11,814	18,867	31,908	59.7	69.1	170.1
West Virginia	3,929	5,773	9,941	46.9	72.2	153.0
North Carolina	11,344	17,724	29,821	56.2	68.3	162.9
South Carolina	5,347	8,369	14,662	56.5	75.2	174.2
Fifth District	46,925	72,594	120,508	54.7	66.0	156.8
United States	579,161	851,952	1,373,511	47.1	61.2	137.2

Source: U. S. Department of Commerce, Bureau of Economic Analysis.

or region as well as changes in that structure over time. This type of information will be used to portray the industrial structures of Fifth District states and to spotlight changes in those structures over the past decade.

Growth in Personal Income The personal income of Americans has grown quite rapidly in recent years. In nominal terms, total personal income in the United States more than doubled between 1966 and 1976, for an average annual increase of almost 14 percent (Table I). Moreover, the rate of growth in the second half of that period was almost a third higher than in the first five years.[2] And over this ten-year period, every state in the Fifth Federal Reserve District enjoyed a significantly higher growth in personal income than the nation as a whole. Only the District of Columbia, because of its peculiar industrial structure and geographical limitations, had a smaller increase than the national rate. Among District states, South Carolina and Virginia recorded the fastest growth in total personal income while Maryland and West Virginia were at the lower end of the scale.

As Table I shows, however, in most District states growth in personal income did not proceed at a uniform pace over the ten-year period. Most District states, as well as the nation as a whole, achieved a much higher rate of growth in the 1971-76 period than in the immediately preceding five years. Maryland was the only District state to show very little pickup in the second half over the first half of that period and, excluding the District of Columbia, was the only District state with a growth rate in the second half that was below the national rate.[3]

Both South Carolina and Virginia enjoyed strong growth in income throughout the decade, with these two states ranking one-two among District states in terms of growth over the entire period. Virginia achieved the highest growth rate among District states in the 1966-71 period, with South Carolina second; South Carolina was first in the 1971-76 period, with Virginia third.

Table II

PER CAPITA PERSONAL INCOME

United States and Fifth District States, 1966 and 1976

	1966		1976		
	Per Capita Income	Percent of U. S.	Per Capita Income	Percent of U. S.	% Change 1966-1976
District of Columbia	3,589	121.1	8,067	126.1	124.8
Maryland	3,153	106.4	6,880	107.5	118.2
Virginia	2,651	89.5	6,341	99.1	139.2
West Virginia	2,213	74.7	5,460	85.3	146.7
North Carolina	2,317	78.2	5,453	85.2	135.3
South Carolina	2,122	71.6	5,147	80.4	142.6
Fifth District	2,674	90.2	6,225	97.3	132.8
United States	2,963	100.0	6,399	100.0	116.0

Source: U. S. Department of Commerce, Bureau of Economic Analysis.

West Virginia had the most dramatic turnaround in growth of any District state. In the 1966-71 period, West Virginia recorded the smallest growth in income of any state in the District and was the only District state with a growth rate below the national average; in 1971-76 West Virginia's growth was second among District states only to South Carolina's, and was significantly higher than either the District or the national rate. This dramatic improvement is undoubtedly attributable to the revolutionary changes in the world energy picture and the resulting recovery in West Virginia's coal industry.

Per Capita Personal Income From 1966 to 1976, per capita personal income in the Fifth District rose almost 133 percent (Table II). This compares with an increase of 116 percent for the entire nation. Every District state and the District of Columbia recorded a larger percentage increase over this period than the national gain. Maryland, which has the highest per capita income among District states (excluding the District of Columbia), realized the smallest percentage increase. West Virginia, with the second lowest per capita income in 1966, enjoyed the largest percentage gain, mainly because of a very strong surge in the final five years of the period. South Carolina, with the lowest per capita income among District states, had the second highest growth rate, while Virginia was third. Per capita income

[2] These comments refer to nominal income, of course, and the faster growth rate in the latter period is largely a reflection of the higher rate of inflation experienced since 1970. Real per capita disposable income (that is, total nominal income adjusted for taxes, inflation, and the growth in population) increased at a faster pace in the second half of the 1960's than it did in the first half of the 1970's.

[3] At the same time it should be noted that, excluding the District of Columbia, Maryland has the highest per capita income of any District state and is the only District state whose per capita income exceeds the national figure.

Table III

TOTAL LABOR AND PROPRIETORS' INCOME BY PLACE OF WORK

United States and Fifth District States, 1966 and 1976

	United States Percent of Total		Fifth District Percent of Total		District of Columbia Percent of Total		Maryland Percent of Total	
	1966	1976	1966	1976	1966	1976	1966	1976
Total Labor and Proprietors' Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Farm	3.5	2.4	2.9	2.1	–	–	1.1	1.1
Agricultural services, forestry, fisheries, and other	0.3	0.4	0.3	0.3	0.5	0.7	0.3	0.3
Mining	1.1	1.5	1.4	2.0	0.0	0.0	0.2	0.1
Construction	6.3	5.7	6.3	5.8	4.0	2.9	7.2	5.8
Manufacturing	29.7	25.9	25.1	22.6	4.0	2.9	23.3	16.6
Transportation and public utilities	7.1	7.5	6.4	6.6	6.3	6.2	6.6	6.5
Wholesale and retail trade	16.9	17.2	15.0	15.0	12.0	7.1	16.4	17.7
Finance, insurance, and real estate	5.2	5.3	4.2	4.1	4.6	4.4	4.6	4.8
Services	14.3	16.4	13.6	15.2	20.0	21.2	15.0	18.7
Government	15.6	17.8	24.8	26.2	48.7	54.4	25.1	27.3

	North Carolina Percent of Total		South Carolina Percent of Total		Virginia Percent of Total		West Virginia Percent of Total	
	1966	1976	1966	1976	1966	1976	1966	1976
Total Labor and Proprietors' Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Farm	6.6	5.3	4.5	2.3	2.1	1.2	0.7	0.2
Agricultural services, forestry, fisheries, and other	0.3	0.3	0.4	0.3	0.3	0.2	0.1	0.1
Mining	0.2	0.2	0.2	0.2	1.1	1.9	12.6	17.8
Construction	6.1	5.3	6.6	6.3	7.0	6.4	6.1	6.4
Manufacturing	33.3	32.4	35.2	33.7	21.5	19.6	29.9	24.4
Transportation and public utilities	5.7	6.3	4.4	5.5	7.0	7.0	9.5	8.2
Wholesale and retail trade	16.0	16.1	13.8	14.6	15.0	15.4	14.1	14.4
Finance, insurance, and real estate	4.0	4.0	3.6	3.8	4.4	4.2	2.9	2.9
Services	11.8	12.9	11.0	11.7	13.2	15.1	11.2	11.8
Government	16.1	17.3	20.2	21.6	28.4	29.0	12.8	13.9

Source: U. S. Department of Commerce, Bureau of Economic Analysis.

growth in North Carolina exceeded the District figure, while the increase in the District of Columbia fell somewhat short of it.

As a result of these above average growth rates, the level of per capita income in every District state and in the District of Columbia improved relative to the national level (Table II). For the District as a whole, income per capita rose from about 90 percent of the national figure in 1966 to about 97 percent in 1976. The District of Columbia, whose per capita income of $8,067 in 1976 was second only to Alaska among the nation's states, improved its relative position from 121 percent to 126 percent of the national level. Maryland, with the smallest percentage increase among District states, improved only slightly relative to the national level. Virginia, with the third highest per capita income in the District, enjoyed strong growth throughout the period. As a result, the level of income per person rose from almost 90 percent of the national figure in 1966 to 99 percent in 1976. West Virginia, North Carolina, and South Carolina all enjoyed better than average growth in per capita income and all made significant gains toward reaching the national average.

Sources of Personal Income Data on labor and proprietors' income by industry provide valuable information as to the relative importance of particular industries in our economy and, if looked at over a period of years, they may spotlight changes in the industrial structure of the economy. It comes as no great surprise, of course, that the industrial structures of Fifth District states, with the exception of the District of Columbia, are not greatly different from the structure of the national economy. But there are differences between them, just as there are differences among the individual states of the District, and these structural differences help to explain such things as differential rates of growth, more or less susceptibility to business cycles, and so on.

The major structural difference between the District and the national economies lies in the difference in relative importance of government and manufacturing (Table III). Government is, of course, a much more important generator of income in the Fifth District than it is nationally. It was the most important source of personal income in the Fifth District in 1976, accounting for 26.2 percent of total labor and proprietors' income. This compares with 17.8 percent for the nation as a whole. Part of this difference is accounted for by the location of Washington, D. C. in the Fifth District, but there are also a number of large military installations and other government facilities in the District that generate a considerable amount of income. Manufacturing, on the other hand, accounts for a much larger part of labor and proprietors' income nationally than it does in the District. In 1976 it generated 25.9 percent of total labor and proprietors' income in the United States, by far the most important single source, as compared with 22.6 percent of such income in the Fifth District.

While government and manufacturing account for the major structural differences between the nation and the District, there are other differences as well. Wholesale and retail trade and the service industries, each of which contributes about one-sixth of labor and proprietors' income in the United States, are both more important nationally than in the District. Finance, insurance, and real estate is a much less important source of income than the other industries mentioned, but it is significantly more important nationally than in the District.

Changes in Sources of Income As mentioned earlier, changes in the relative importance of particular industries as generators of personal income provide useful information as to the changing structure of the economy. They are by no means a perfect indicator of structural changes, however, because increases in labor income may result simply from a larger number of workers, drawing higher wages, but producing the same amount of output. Nevertheless, changes in these data over a period of years do provide a fairly accurate picture of structural changes in the economy.

Data for the ten-year period 1966-76 show a continuation of trends that have been in progress for a number of years. Generally a reflection of the evolution toward what might be called a post-industrial (i.e., service oriented) society, they will undoubtedly continue to affect the structure of the economy for many years to come. The general picture one gets from these data is of an economy increasingly oriented toward wholesale and retail trade and the service industries, and in which government is an increasingly important source of personal income. On the other hand, manufacturing and farming are becoming less important as creators of income. During the period under review, construction also declined in relative importance but construction is a highly cyclical industry, and in 1976 it had not fully recovered from the severe downturn of 1974-75.

Changes in sources of income in the individual states comprising the Fifth District were generally in line with changes in the national economy. There were differences, however, and these may help to explain the faster growth in personal income in District states than in the nation. That is to say, differences in the growth of personal income for Fifth District states as compared with the national growth may be explained, at least in part, by two factors. First, in most District states the rapidly growing sectors are relatively more important than they are in the national economy. Second, growth rates of specific components of the state's personal income differed from the national growth rate. In several District states the second factor appeared to be more important than the first.

Maryland is perhaps a case in point. Government, one of the "growth" sectors, is the most important source of labor and proprietors' income in that state, accounting for more than a quarter of the total. Manufacturing, a relatively slower growth sector, was second most important in 1966, the source of more than 23 percent of the total. Between 1966 and 1976, however, government-produced income increased in Maryland at almost the identical rate as in the nation, and at a significantly lower rate than in other District

Table IV

TOTAL LABOR AND PROPRIETORS' INCOME BY PLACE OF WORK

United States and Fifth District States, 1966 and 1976

(millions of dollars)

	United States			Fifth District		
	1966	1976	% Change	1966	1976	% Change
Total Labor and Proprietors' Income	472,866	1,046,513	121.3	39,422	95,192	141.5
Farm	16,606	24,977	50.4	1,144	2,031	77.5
Agricultural services, forestry, fisheries, and other	1,587	3,840	142.0	130	292	124.6
Mining	5,099	15,256	199.2	552	1,902	244.6
Construction	29,770	60,147	102.2	2,502	5,559	122.2
Manufacturing	140,243	271,138	93.3	9,890	21,484	117.2
Transportation and public utilities	33,512	78,203	133.4	2,531	6,253	147.1
Wholesale and retail trade	79,789	179,693	125.2	5,915	14,315	142.0
Finance, insurance, and real estate	24,576	55,712	126.7	1,637	3,946	141.1
Services	67,765	171,741	153.4	5,359	14,505	170.7
Government	73,919	185,806	151.4	9,760	24,903	155.2

	North Carolina			South Carolina		
	1966	1976	% Change	1966	1976	% Change
Total Labor and Proprietors' Income	9,599	23,666	146.5	4,533	11,461	152.8
Farm	629	1,259	100.2	205	259	26.3
Agricultural services, forestry, fisheries, and other	29	62	113.8	18	37	105.6
Mining	18	54	200.0	9	20	122.2
Construction	582	1,243	113.6	300	720	140.0
Manufacturing	3,195	7,663	139.8	1,597	3,868	142.2
Transportation and public utilities	545	1,485	172.5	201	629	212.9
Wholesale and retail trade	1,535	3,802	147.7	624	1,670	167.6
Finance, insurance, and real estate	383	956	149.6	162	438	170.4
Services	1,133	3,044	168.7	500	1,341	168.2
Government	1,549	4,098	164.6	917	2,478	170.2

* Less than $500,000.

Source: U. S. Department of Commerce, Bureau of Economic Analysis.

states (Table IV). At the same time, income from manufacturing in Maryland increased only 64.4 percent over that decade, as compared with an increase of 93.3 percent nationally. For the entire District, manufacturing income rose 117.2 percent, and figures for the other states ranged from 91.9 percent for West Virginia to 142.2 percent in South Carolina. Income from the trade and service industries grew significantly faster in Maryland than in the nation.

Thus, the smaller growth in the relative position of income from government, and the more rapid decline in the relative importance of manufacturing income was only partially offset by the robust expansion in trade- and service-produced income, so that the increase in total personal income in Maryland was the smallest among District states. It was still significantly above the national figure, however.

The pattern in North Carolina also differs from the national pattern and the patterns in other District states. Manufacturing is by far the most important source of personal income in North Carolina, accounting for almost a third of labor and proprietors' income. But income from manufacturing in North Carolina grew almost 140 percent from 1966 to 1976, compared with 93.3 percent growth for the nation. At the same time, income from trade and service

District of Columbia			Maryland		
1966	1976	% Change	1966	1976	% Change
4,405	9,465	114.9	8,557	19,807	131.5
—	—	—	97	222	128.9
22	66	200.0	28	62	121.4
*	3	—	21	29	38.1
174	279	60.3	612	1,354	121.2
174	278	59.8	1,998	3,284	64.4
278	590	112.2	562	1,293	130.1
529	676	27.8	1,404	3,511	150.1
204	416	103.9	396	943	138.1
879	2,011	128.8	1,287	3,707	188.0
2,144	5,146	140.0	2,152	5,402	151.0

Virginia			West Virginia		
1966	1976	% Change	1966	1976	% Change
9,097	23,188	154.9	3,231	7,605	135.4
189	276	46.0	24	15	−37.5
29	56	93.1	4	9	125.0
97	442	355.7	407	1,354	232.7
638	1,480	132.0	196	483	146.4
1,960	4,537	131.5	966	1,854	91.9
639	1,632	155.4	306	624	103.9
1,367	3,563	160.6	456	1,093	139.7
397	971	144.6	95	222	133.7
1,198	3,507	192.7	362	895	147.2
2,584	6,723	160.2	414	1,056	155.1

industries also grew significantly faster than in the nation. Government-produced income in North Carolina also outpaced the nation, but government is less important as a source of income in North Carolina than it is in Maryland, Virginia, and South Carolina.

South Carolina enjoyed the highest rate of growth of personal income among District states, recording an increase of 174.2 percent as compared with 156.8 percent for the District and 137.2 percent for the nation. This robust expansion is reflected in the growth rates of the various categories of income, with most of them exceeding the comparable national rates. Nevertheless, there were changes in the relative importance of particular industries. Manufacturing, for example, fell from 35.2 percent to 33.7 percent of total labor and proprietors' income, but at the same time income from this source rose 142.2 percent over the ten-year period. Trade and service industries are relatively less important as a source of income than they are nationally, but income from these industries rose substantially faster in South Carolina than nationwide.

Virginia had the second highest growth rate of personal income for District states and this may be one instance where the industrial structure was favorable to growth. Government is by far the most important source of income in Virginia, accounting for almost 30 percent of labor and proprietors' income in recent years, and income from this source grew much more rapidly in Virginia than in the nation. Other high growth sectors, the trade and service industries, also enjoyed considerably faster expansion in Virginia than across the nation. At the same time, income from the slow-growth manufacturing sector surged 131.5 percent in Virginia, as compared with 93.3 percent nationwide. Construction, mining, and the finance industries all recorded above average growth.

The behavior of personal income in West Virginia over the past decade reflects the differences between the economic structure of that state and the structures of other District states as well as that of the nation. Although manufacturing accounted for almost a quarter of total labor and proprietors' income in West Virginia, mining was in second place in 1976, accounting for 17.8 percent of the total. Wholesale and retail trade was the third most important source, and government fourth. Services, with only 11.8 percent of the total, was far below the comparable figure for the District and for the United States.

The strong surge in income from mining in the last five years dominates the economic picture of West Virginia. From 1966 to 1971, personal income in West Virginia recorded a gain of 46.9 percent, the lowest among District states. Mining declined in relative importance as a source of income, showing a gain of only 30 percent over the five-year period. Manufacturing fell in relative importance from 29.9 percent to 25.9 percent of labor and proprietors' income and showed a five-year gain of only 21.6 percent (compared with 39.7 percent for the District and 27.1 percent nationally). The largest gains during this period were in construction and government. But the change in the worldwide energy supply situation in the early 1970's brought dramatic changes in the West Virginia economy. The loss of population that had characterized the 1960's was reversed and personal income jumped 72.2 percent from 1971 to 1976. This growth was second among District states during that period only to South Carolina. And there is no doubt that the large growth in personal income came from the coal mines. Income from mining grew 156.0 percent over this five-year period and by 1976 mining accounted for 17.8 percent of labor and proprietors' income, up from 11.7 percent in 1971. There were some spillover effects, with the service and trade industries showing above average increases in income. Income from government grew at a faster pace than in the preceding five years, and considerably above both the District and the national rate.

It is not very meaningful to compare the District of Columbia with the states in the District or with the national economy because growth in personal income in the District of Columbia is largely determined by the government sector. In 1976, government was the source of 54.4 percent of total labor and proprietors' income, a figure that had grown from 48.7 percent in 1966. The service sector was second with 21.2 percent of the total, while wholesale and retail trade produced 7.1 percent of the total. In sharp contrast to developments throughout the Fifth District and the nation, trade has declined sharply in relative importance in the District of Columbia. In the ten-year period ending in 1976, income produced in the trade industries grew only 27.8 percent. This compares with 142.0 percent for the Fifth District and 125.2 percent for the nation. The decline in the relative importance of trade in the District of Columbia can be attributed to the rapid development of shopping centers in the Maryland and Virginia suburbs of the Washington area.