Recent Income Trends in Arkansas

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Knowledge of income and income trends is important to all members of a community. Businessmen can employ such information to advantage in the conduct of their businesses. Members of both state and federal governments and all those interested in the progress of a state or region can use this knowledge as a measure of economic welfare. But care must be taken in the interpretation of statistics which have been developed and which are available in government and private publications. Since income payments to individuals will not be available in total for the purchase of consumer goods, suitable adjustments should be made by businessmen when they employ these figures to guide marketing policy. On the other hand, since economic welfare is not completely determined by income, considerable study has yet to be done before accurate evaluations of welfare can be made employing income as a major guide.

In spite of these interpretative difficulties, there is much to be gained from a study of income. This study should take several forms in order to cover both broad and detailed aspects of the income experience of a state: (1) trends of total and per capita income and of income by type of payment and industrial source should be examined to indicate the progress already made by a state or region, both absolutely and on a relative basis, and to suggest the sectors of the state economy where improvement should be attempted; (2) estimates of income should be prepared on a county or other small-area basis in order both to aid the businessman in his search for markets and to provide a basis for judging the economic fortune of people within the state, as a guide in the development of a state policy for improvement.

This paper will describe the movement of Arkansas income and its components from 1929 to 1948 and the results of a study concerned with the preparation of income estimates for small areas within the state. The trend of Arkansas income will be compared with trends for the United States and several other neighboring states and comments will be made concerning the importance of different sources of income. Data on total and per capita income were secured from the August, 1949, issue of the Survey of Current Business and information on income by industrial source was obtained direct from the Department of Commerce. The series used to allocate the various components of income to small areas within Arkansas were collected from the appropriate Federal and State agencies. Several charts have been prepared in order to allow a more graphic picture of Arkansas income to be presented.

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Total and Per Capita Income.

In 1948, the last year for which figures are available, both total and per capita income reached the highest levels ever experienced in the United States and in any state or region within the country. However, the experience of states and regions differed widely. Both income series reflect changes in business conditions, dropping sharply from 1929 to 1933 and again in 1937-1938. In spite of this latter recession, however, income growth was fairly steady throughout the country from 1932 to 1948 (Chart 1).

PER CAPITA INCOME PAYMENTS IN THE UNITED STATES
ARKANSAS, CONNECTICUT, AND MISSISSIPPI, 1929-48

In the case of Arkansas the average annual rate of growth was 12 per cent for per capita income and 13 per cent for total income. Income in both Connecticut and the United States grew more slowly. This experience reflects a long-run tendency for income of states and regions within the country to approach the national average. Between 1929 and 1948 Arkansas per capita income rose from 45 to 61 per cent of the United States figure, an increase of 180 per cent. On the other hand, Connecticut per capita income during the same period fell from 135 to 121 per cent of the United States figure, a decrease of 10 per cent. But in spite of the higher rates

Since these figures are expressed in current dollars, part of the increase reflects the inflationary changes which have taken place in recent years.
of change experienced by Arkansas and Mississippi, these states did not improve their ranks within the country, dropping from positions 47 and 48 in 1929 to 48 and 49 in 1948.²

Sources of Income.

A discussion of sources of income should be supported by data in both absolute and percentage terms (Charts 2 and 3).³ The large growth which was experienced by total income in Arkansas during the 20-year period from 1929-1948 is composed of increases in all of the sources shown. Total income rose from $562 million in 1929 to $1,762 million in 1948, nearly a three-fold increase. The only category in this total not increasing after 1945 was “other income” which is composed of such transfer payments as

²This ranking of per capita income by states includes the District of Columbia. South Carolina moved from 49th position in 1929 to 47th in 1948.
³A distinction should be made between components and sources of income. The former term generally refers to the four categories: labor income (wages and salaries, after deduction of employees' contributions to social security programs); entrepreneurial income (proprietors' net returns from unincorporated business enterprises, including farms, before owners' withdrawals); property income (dividends, interest, net rents and royalties); "other" income (public assistance, veterans' pensions, social insurance benefits, and other governmental transfer payments); while the latter refers to the industrial sources of the income which comprises these categories.
veterans' pensions, workmen's compensation, social insurance benefits, and relief payments. This is a desirable post-war readjustment.

But the large absolute changes had little effect on the percentage importance of these sources of income. In spite of the increase in manufacturing activity which has taken place in Arkansas during the last twenty years, this source of income has changed little in relative importance. In fact, the agricultural sector of the economy produced more income percentagewise in 1948 than in 1929, and the manufacturing and mining sector produced less. Both elements of government activity within the state increased substantially from 1929 to 1944 but have fallen somewhat since then. The trade sector of the economy has, except for the war years, shown a fairly steady rate of increase.

The principal difference in income structure between Arkansas and the United States as a whole, and between the two states Arkansas and Mississippi and other states in the West South Central region, lies in the inverse roles played by agriculture and manufacturing. The income resulting from

*The West South Central region is composed of Arkansas, Louisiana, Oklahoma, and Texas.*
agricultural operations in the United States was less than 10 per cent of the total in 1948 while that resulting from manufacturing and mining was about 25 per cent of the total. In Arkansas, the corresponding figures were 32 and 12 per cent. Mississippi was the only other state in the Middle South with similar percentage figures. Income from agriculture in the past has been subject to much wider cyclical fluctuations than income from any other source. Its importance in the economy of Arkansas and Mississippi, therefore, makes these states extremely vulnerable to fluctuations in economic conditions.

Income has experienced many changes in the last twenty years. Those occurring in Arkansas have been among the largest in the country in relative terms, primarily because of the low base from which the increases have been measured. But in spite of these changes, the state's rank in the nation has not improved, an emphatic reminder that Arkansas has a long way to go before reaching a level equal to the national average.

Small-Area Income.

In order to clarify the Arkansas picture by determining the income structure of small areas within the state, a study involving the allocation of state income payments to counties was conducted in 1949 in cooperation with the Federal Reserve Bank of St. Louis. The Office of Business Economics, National Income Division, U. S. Department of Commerce, supplied state estimates of the four components of income and broke each down by industrial source, providing a total of 23 component figures. These components were allocated to counties by employing statistics secured from the appropriate federal and state agencies.

This method of estimation was selected in preference to the more detailed procedure of building up income aggregates for each county, primarily because insufficient information was available to prepare direct income estimates. On the other hand, the more summary procedures of using correlation analysis or of summing a few major components were not employed since these techniques, although time-saving, could not produce as reliable results or useful analytical information as result from allocation. One of the objectives of income analysis is to secure per capita estimates on a county basis. Major difficulty arises, however, because of the classification of data available: census and social security wage and salary data are classified by counties according to location of business establishment, while population figures are classified according to domicile. Consequently, error results where income recipients commute across county lines. To reduce this error, the figures secured were combined into 18 areas, which were selected in cooperation with the Area Development Division, U. S. Department of Commerce, and the Arkansas Resources and Development Commission. The allocations resulting from the above analysis are not perfect and

The results of this study and of similar studies carried out in other states comprising the Eighth Federal Reserve District were presented in the January, 1950, issue of the Monthly Review of the Federal Reserve Bank of St. Louis.
research should continue towards the ultimate goal of obtaining the most accurate method for estimating the income of small areas.

These income figures reveal the poorer areas of the state and, by comparison with 1947 figures, those areas where little change has taken place (Chart 4). Total income is shown as an index number with the 1939 figure used as a base. The largest gains between 1939 and 1948 took place in the eastern part of the state and, except in the case of Pulaski County, largely represent increase in agricultural income. The smallest changes took place in the north-central part of the state and in the southwest corner. These are the low income areas already indicated by the per capita figures.

Summary.

The analysis presented in this paper has been sketchy since it was not intended to provide a complete picture of income in Arkansas. Trends in total and per capita income and in the components of Arkansas income were
presented as an example of analysis employing comparisons with other states or regions and with the United States, to determine the position of a state within the nation. The results of the study on small-area income were presented to indicate the type of internal income analysis which is valuable to state governments in planning development within the state, and to federal agencies in administering social and economic programs. Additional research on small-area income should be carried on, both to improve the estimates which have already been made, and to analyze how this income is spent in order to develop a concept of the flow of income within the state.