AN EXAMINATION OF ECONOMIC TRENDS IN NORTHERN VERSUS SOUTHERN US INDUSTRY
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Abstract
Recent American economic trends suggest the appearance of comparably higher rates of new industry in the Southern US as compared to the Northern US, particularly the Rust-Belt and Northeast regions. Although pre-recession and recession indicators demonstrate comparably lower economic conditions in the South, manufacturing is trending in positive directions in the South as compared to the North, a phenomenon which scholars indicate first began in the mid 1960s. Although Northern states exhibit higher economic indicators such as GDP and median household income, the South is now the preferred destination for new manufacturing investment, particularly commitments from global sources/majority owned US affiliates and new contract work, causing the South to better mitigate against the national deindustrialization trend, based on statistics from the 2010 US Census.
Keywords- manufacturing, industry, North/Northern, South/Southern, economics, Rust Belt, Northeast, Mason-Dixon Line, factory, production, states.
BEA- Bureau of Economic Analysis
GDP- Gross Domestic Product
Incoming Foreign Direct Investment- IFDI

The economies of the fifty states of the United States vary according to the geographic region in which they are located. The Northern States of the Midwest and Northeast regions, also known as the American Manufacturing Belt, developed their economies based on traditional industry, as compared to the Southern states, also known as the American Sunbelt. Manufacturing, or industry, is the human economic activity of creating goods through the use of machinery, capital, or other production means (Duesterberg&Preeg, 2003). During the American Civil War years, the manufacturing capabilities of the Northern States and the ability to produce goods are credited as key reasons for the North’s victory over the South. The Northern US, which includes many historically industry-intensive cities such as Pittsburgh and Detroit, has since been labeled the “Rust Belt” due to its perceived industrial decline, or the rusting of formerly new industrial machinery (Lopez, 2004).

Shifts in manufacturing economies are allowing Southern US states to see comparable advantages in economic growth vis-à-vis their Northern neighbors(Sisson, Zacher, &Cayton, 2007). While the Northern US states are experiencing comparably higher rates of deindustrialization, Southern states have been an increasing destination for new industry. Smith and Dennis (1987) found that by the mid-1960s, Southern states started experiencing more new industrial growth and productivity than the North. Furthermore, Crandall (1993) identified that in addition to lower levels of union membership in the South and Southwest, the higher per capita state and local government expenditures existing in the Rust Belt states from 1967-1987 served as key motivators for these trends.

The decrease in manufacturing growth in areas of the US that were once booming with factories and high-paying jobs has been dismayed to many Americans and was the impetus for this study. Total US manufacturing jobs now total 11.7 million, as compared to 19.5 million in 1979 (Reske, 2011).
This shift in destination for new US industry has challenged Northern state governments to be more innovative than their Southern competitors in their efforts to entice new global capital that may stimulate the state’s industry and therefore boost the state’s economy. The loss of production jobs has been particularly devastating to the economies of the traditionally manufacturing regions of the country such as the Rust Belt (Grant & Wallace, 1994). These Midwest and Northeast states built their economies on industry during the economic peak of US manufacturing, and with the nationwide shift from production jobs to service and high-tech industries, these regions face many challenges as they attempt to reshape their economies and retrain their workforces to better handle the realities of the global marketplace (Blakely & Leigh, 2010).

Specifically, Northern states such as Indiana, Ohio, and Pennsylvania, have been hit hardest by job losses associated with plant closings and layoffs (Earle, 2003). Between January 2000 and January 2008, 7.2 million jobs were created in the United States before the 2008 recession, an increase of approximately 5.5%. However, Indiana, Ohio, and Pennsylvania experienced a reduction in jobs at this time. During this period, these states lost a net 37,300 jobs; while the states gained some service sector jobs, they lost a total of 609,200 manufacturing jobs (Wallison, 2008). In addition, between 1995 and 2005, 24 out of 25 of the largest Great Lake-region cities lost manufacturing jobs (Cohen, 2004). The subsequent layoffs and plant closings have devastated the entire economies of some towns and have taken a heavy toll on many working families (Brady & Wallace, 2001), some of which had made their livings from the same manufacturing company for multiple generations.

State leadership has played an increasing economic role in recent years, especially at the international level. Every US governor faces a unique set of challenges, however, a persistent problem for Northern governors includes the unenviable task of confronting a nationwide decrease in factory jobs associated with traditional manufacturing. Thus, the political quest to lure new streams of Incoming Foreign Direct Investment (IFDI) are most critical to governors in Northern states, who have seen their economies hit hardest by plant closings and the decline of the traditional industrial economic base.

**Horizontal Differences Between Northern and Southern States in Attracting New IFDI**

Historically, the Mason-Dixon Line has served as the demarcation between the Northern and Southern US states. Since the 1820 Missouri Compromise, the Mason-Dixon Line was utilized to determine whether a new western territory would be considered a pro-slave state of the American South or an anti-slave state of the American North. However, this line not only separated the country geographically, but also came to signify an economic and cultural divide (Davenport, 2004). This cultural divide has evolved over time but still exists today, with differences between the two regions in an array of factors (Mark & Vaughan, 2004). This border between the North and South is still mirrored by the distribution of foreign investment in the United States. According to Kim (1995), new commitments of international capital are more likely to be targeted to Southern rather than Northern states.

Since 1949, growth in manufacturing jobs has been seen in the South and West, compared to the loss of manufacturing jobs in the North (Smith & Dennis, 1987). The traditional US Manufacturing Belt consists of states in the Midwest and Northeast, all of which are north of the Mason-Dixon Line. In 1964, the Manufacturing Belt contained 70% of US industry but only 40% of US population (Mannheim, 1964). Smith and Dennis (1987) measured manufacturing
employment changes in four distinct five-year periods from 1959-1979 and found that 22 Rust Belt states had witnessed decreased or stagnated growth in at least one of those timespans. However, they revealed that zero states below the Mason-Dixon line experienced this rate in any of those intervals. In a study of the business cycle from 1980-1985, only Arizona and Florida, both of which are located in the South, saw an overall average manufacturing growth rate of over 3% (Grant & Wallace, 1994).

When leadership creates energy and momentum for economic development, it can lead to organizational success (Cooper, Gutierrez, & Hameed, 2004; Ginsberg & Venkatraman, 1995), and this momentum can dramatically impact the prospect of future economic markets (Jansen, 2004). For instance, Northern states are not always unsuccessful when attempting to sustain and attract manufacturing capital and have been successful in gaining investment when state leadership is able to achieve positive economic momentum. For example, in Utah in 2000 and Maryland in 2002, state leadership of these Northern states developed economic momentum, increased their economy’s global visibility, and/or generated an inviting business climate through successful proactive endeavors. In doing so, the state leaders prevented a continuation of the trend of losing manufacturing jobs (Sisson, Zacher, & Cayton, 2007).

**Recent Economic Data and Trends**

Today the Northern states still have a comparably higher standard of living than the Southern states. According to the United States Census (2010), 101,540,346 people, or 32.95% of the total US population, lived in the 13 states located south of the Mason-Dixon Line. The 37 remaining states accounted for a total of 206,624,589 people, or 67.05% of the population.

The 13 Southern states witnessed comparably lower economic wealth than the rest of the country. Of the 16 states which rank higher in average US household income, all are located in the North (Semega, 2009). The median household income of the 13 Southern states was $44,905, whereas the median household income for the 37 Northern states was $54,095 (US Census, 2010).

The Gross Domestic Product (GDP) per capita of the 13 Southern states was $33,864.46, whereas the average GDP per capita for the entire US was $38,234.37. In addition, the 13 states located south of the Mason-Dixon Line accounted for only 28.81% of the total GDP in the US (US Census, 2010). Figure 1 compares the population and GNP of the North and the South.
Economic indicators and trends provide a glimpse into the most recent economic performance of the 13 Southern states. 5136 new manufacturing companies started in the US from June 2010 to June 2011 (Manta, 2011). Although the Southern states only constitute 28.81% of total US GDP, of these, 1789, or 34.8% of new manufacturing operations, were based in the Southern states, whereas 3347, or 65.2%, were based in the Northern states. Thus, the Southern states have witnessed comparably larger growth in commitments of new industry (Sisson, Zacher, & Cayton, 2007). Figure 2 shows North and South population and new industry.
The most recent United States federal government Bureau of Economic Analysis (BEA) data, which details information to 2008, reported the total workers employed by majority owned affiliates, which are US companies in which foreign ownership is greater than fifty percent (Anderson, 2010). The bulk of employees from majority owned affiliates work in industry (Anderson & Zeile, 2009; Madura, 2003), and this BEA data indicates that the number of employees working in majority-owned affiliates for the 13 Southern states rose by 0.28% from the year prior, whereas the number of employees working in majority owned affiliates for Northern states decreased by 0.018% during the same time period. Figure 3 displays the change in total Northern and Southern workers in majority-owned affiliates for the most recent data.

According to the BEA, Manufacturing Employment of Nonbank U.S. Affiliates, by State, 1999-2006 (Anderson, 2010), the 13 Southern states lost 25.2% of their workforce during that timespan, whereas the Northern states lost 26.7%. Thus, the South appears to be stemming the tide of lost factory jobs better than the North. Figure 4 illustrates the decreases in total manufacturing employment in the North and South from 1999-2006.
In addition, based on the most recent census data from 2008 to 2009, Southern states saw their contract work for manufacturing companies, defined as direct charges actually paid or payable for items consumed or put into production during the year, decrease by 0.85.83%, whereas the Northern states saw their contract work decrease by 84.13% (US Census, 2011). Figure 5 shows the decrease in manufacturing company contract work during the middle of the recession in the North and the South.

Figure 4. North versus South Comparison: Decrease in Manufacturing Employment of Nonbank US Affiliates, 1999-2006.

Figure 5. North versus South Comparison: Decrease in Manufacturing Company Contract Work, ‘08-‘09
Conclusions and Reactions

One possible cause of the comparably higher recent manufacturing economic trends for the Southern states could be the heavy concentration of trade unions in the North (Sisson, Zacher, &Cayton, 2007). The organizational capacity of labor unions and their ability to disrupt capitalist production can play a critical role in the generation of profits, and in general, manufacturing growth has decreased in markets with high levels of union density (Grant & Wallace, 1994). Nine of the 10 states with the lowest percentage of public employees eligible for collective bargaining or union activity are located the South (Hirsch & MacPherson, 2003).

Another plausible cause of rises in Southern manufacturing is that these states are seen as more likely to adhere to the increasingly prominent “right-to-work” argument, a major political discussion receiving national attention in early 2011 as a result of protests at various Statehouses, most notably those in Northern states including Wisconsin, Indiana, and Ohio (Pettus&Schelzig, 2011). The right to work statute prohibits employers from demanding payments for union fees as a prerequisite of hiring and employment and is seen as a deterrent of industrial selection by management. As a result, more new industry is likely to go to areas where this is a legal option. By 2011, this statute was already enforced in twenty-two US states, most of which were south of the Mason-Dixon line (Trzupek, 2011).

Basic weather explanations have also been suggested as other possible causes of the migration of industry to the South (Crandall, 1993). Favorable climates can be an impetus for new industrial development (Czinkota,&Ronkainen, 2007), and a warmer climate can simply be appealing.

A manufacturing revitalization of sorts is in the works in the US as the country recovers from the recession that started in 2008. In the first three months of 2011, output from industry grew at an estimated annual rate of 9.1 %, while the overall US economy expanded by only 1.8 %(Fletcher, 2011). Recent trends indicate that these new jobs will increasingly be located in the South, especially if they are in a new industry. While the North historically has been the manufacturing belt of America, the South continues to rises as a more preferred destination.

REFERENCES


