What Kind of Economy Can the South Expect?*

Looking ahead toward the turn of the century should not strain our imaginations too much. Looking backward, we can, of course, be impressed by the many changes that have taken place in the South[1] over the past three decades. In few other areas of the United States have as many social and economic changes occurred in so short a time. On the other hand, those of us who have studied the South's economy cannot but be impressed by how much the area's basic economic structure and the kinds of problems it faces now resemble those of 25 years ago.

Of course, there have been major technological changes. Southerners make their livings in different ways and places. In the process, they have raised their incomes and levels of living. Nevertheless, many aspects of the basic economic system are, to a considerable extent, unaltered. Unless our economic system is subjected to a violent upheaval, a sudden change in its basic structure is very unlikely. The forces shaping the economy during the rest of this century will probably resemble very much those of the past.

Knowing that our economic system is an organization of men and women and that their decisions in the long run tend generally to follow consistent patterns should give us some confidence in our speculations about the future. But, first, we need to get clearly in mind the basic patterns about which we are talking. Our first task, then, will be to distinguish between those patterns that exemplify temporary behavior and those that do not.

Basic Pattern of Southern Economic Change

The South's economy is closely tied to the nation's. In general, it is safe to say, "As the nation goes, so goes the South." This is not surprising, since a major part of the South's output is sold in the national market and the area's income, therefore, depends to a great extent upon those market conditions. Furthermore, the avenues for the flow of goods, people, and money between the South and the rest of the United States are many.

The strength of the economic adjustment process that took place through the market mechanism operating in a relatively free economy during the past 25 years was significant. There was a shift

[1]The South as used in this article embraces the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

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in labor from low productivity sectors, especially agriculture, in the South, as well as other parts of the nation. Capital and labor were mutually attracted. One of these adjustments was the very rapid growth of the South's major metropolitan areas. Capital was drawn to an area of economic opportunities—*i.e.*, natural resources, the growing consumer market, and the labor supply.

Through this adjustment process, our economy has changed considerably in 25 years. For one thing, we have a more diversified economy. A shift away from agriculture is a major cause, but diversification in manufacturing has increased in a similar fashion.

Diversification in the South brought greater homogeneity between its economic structure and that of the United States and between Southern areas. Income differentials have been reduced; the urban-rural mix has become much more like that of the U. S. The employment mix has approached the nation's, as has the cyclical behavior of the South's economy.

Important implications for the South's economic future stem from this tendency to become more like the U. S. The ebb and flow of the nation's economic fortunes will be more and more paralleled by the South's economic fortunes. As these differences diminish, the adjustment will be slower. There are still enough significant differences, however, for the economic adjustment process to continue. But its speed may be slower.

The adjustment process also has had a differential impact on various areas of the South and upon different economic groups. This differential impact of economic adjustment is, of course, understandable in an economic society such as ours where, in the words of one writer, "There is a continuous reworking of the economic landscape." An acceleration of the differential impact in the future would not be surprising. Technological developments may well alter considerably the comparative advantages that certain areas of the South now enjoy.

Although the strength of the economic adjustment process made in response to market forces has been a major factor in southern economic growth, a complete laissez-faire policy cannot be relied upon as the sole source of economic growth. Government intervention has a leading and perhaps crucial role in the successful functioning of the modern capitalistic system. The government may at times have to facilitate the economic adjustment process more and more. Possibly, government intervention may be necessary if, for some reason or another, it is determined desirable to prevent economic forces from bringing about certain results. Although the decisions are made by men and women, in many sectors of the economy the economic adjustment process is not directly in control. Citizens express their preferences through their governments. Such is the case with respect to public education and the provision of other governmental services.

Indeed, the activities of the Federal government have in the past been one of the major economic forces in southern economic growth and have had a greater relative impact on this region's economy than in most parts of the country. The shape of the South's economy in the future is still going to be greatly influenced by governmental activities and expenditures, although the future pattern may differ. The impact of most government activities in the past was largely fortuitous and not designed specifically to correct southern problems. If the program for improving the national society is to be meaningful, much of it will have to be aimed specifically at the South.

Another major force shaping the South's economy is the changing pattern of consumer behavior. Most of us know that relatively steady growth has raised per capita income in the South to about 70 percent of the non-South's, compared with one-half 30 years ago. In the meantime, income has expanded generally throughout the country. Accepted economic theory predicts that with income growth will come a decrease in the proportion of income spent for current consumption, an increase in the proportion of income saved, a greater equality in the distribution of income, and a shift in consumer spending from basic things such as food and clothing toward durable goods and what are sometimes called luxury goods and services. This has happened. Not only is the southern consumer market much bigger than 25 or 30 years ago; it has a different nature. As incomes grow, these changes should continue in the future.

These major forces will likely shape the South's economy. It will be an economy closely tied to the fortunes of the nation's economy, one in which resources will be allocated primarily in response to market forces operating in the context of a government devoted to increasing social overhead capital, welfare, and improvements in education. Under this economic adjustment process, the South will continue to diversify its sources of income.

The South's economy will become more like the nation's. Economic change will have a differential impact on the different areas of the South and industries, depending upon the competitive strength of economic opportunities. The South's economy will be shaped more and more by government. Federal programs more directly aimed at welfare are likely to have special impact on the South. With greater affluence, the Southern consumer will increase his savings and change his spending pattern. Although the nature of the forces inducing change may be the same as in the past, the results obviously will be different in the future.

Income in the Nation and the South

What is likely to be the character of the nation's economic growth, to which the economic fortunes of the South will be so closely tied? As many studies have indicated, the nation has a potential for continued economic growth stemming from a very rapid expansion in the labor force and the possibility of greater productivity resulting from high capital investment and technological advances.

The Joint Economic Committee recently released a study dealing with the potential economic growth of the United States by 1975. A potential rate of expansion of between 4 and 4½ percent a year in the Gross National Product at constant prices was projected as one possibility. With a labor force growing to 93.6 million persons by 1975—14.7 million more than last year—and with an unemployment rate of 3 percent, the nation could have a Gross National Product about a third greater than last year, as measured in constant dollars. This would mean a Gross National Product of $986 billion in 1966 dollars. Last year it was about $740 billion. Should the price level continue to rise, therefore, it would not be long before the Gross National Product would add up to trillions instead of hundreds of billions of dollars. If prices should rise at 2 percent a year, the total in 1975 would be $1.3 trillion.

Over the 1950-65 period a 1-percent change in U. S. personal income was accompanied by a 1.23-percent increase in personal income in the Southeast. Should this relationship hold through 1975 and if the projection of the Joint Economic Committee is fulfilled, personal income in the Southeast will amount to a little less than $150 billion, measured in constant dollars of 1966 purchasing power. Last year it totaled $92.5 billion, according to the U. S. Department of Commerce. This would mean that in 1975 personal income in the Southeast would be more than a third again as great as last year. Should prices rise, of course, the total would be even greater.

No claim for any scientific exactitude can be made for this figure. It will be correct only if several assumptions are correct. Nevertheless, even though the exact figures may be questioned, they emphasize the size of the income growth that can occur in the Southeast if the United States grows as expected and if the Southeast maintains past relationships to that growth. In per capita terms, this could mean an increase of around $900, measured in 1966 dollars, from last year to 1975.

But this projection of personal income in the Southeast by 1975 will be correct only if the entire nation's grows as projected and the relationship between southern and national growth continues exactly as in the past. An exact parallel is extremely unlikely. For one thing, deterring this growth may be a change in the character of national developments. National economic growth is going to reflect the growth of the nation's labor force and how productively this labor force is put to work. If the national economic growth envisioned occurs, there must be a massive business capital investment to utilize the expanding labor force to meet the greater demands and to accept the challenge of the increasing pace of technological change. We shall also have to be wise in our policy decisions.

We can expect the South to share in the nation's economic growth more than it has in the past only if (1) it retains an increasing share of the nation's labor force, (2) it is able to increase the productivity of its workers, and (3) it commands a greater share of capital investment.

The Labor Force

Under almost any conceivable set of conditions, we can expect the South's population to grow. Today the population of the eleven southeastern states is about 41 million. The U. S. Bureau of the Census has provided us with projections, under certain assumptions as to fertility and migration, that suggest a population of about 47 million in 1975 and 56 million in 1985 for the Southeast. Through 1975, the growth rate would just about equal that of the United States, whereas through 1985 under different assump-

tions of migration the rate of expansion would be slightly higher.

But most of these people who will be added to the South's population will not have entered the labor force by 1985, since most of them have not yet been born. Additional entrants into the labor force within the next ten to twenty years must come essentially from those living today. In the past, the South has had a higher proportion of population in the younger and unproductive age groups than other parts of the country. Population experts suggest that this will continue but to a lesser degree. We shall, along with the rest of the country, have a sharp increase in the proportion of the population 14-24 years of age. But of special significance is that by 1975 the proportion of the 25-64 age group in the Southeast will vary little from that characterizing the United States. In age distribution, as in other matters, the South's structure will become increasingly like the nation's.

But numbers alone do not tell the story. Despite the resources devoted to improving education, the educational attainment of Southerners entering the labor force today is, on average, lower than in many parts of the United States. If education and productivity are related, these persons are potentially less able to contribute to economic expansion.

In the immediate future, the productivity of the southern labor force can be improved by manpower training and retraining and, in the long run, by improving educational facilities. The impact of these policies cannot be as great in the immediate future as in the long run, however. Thus, although the South's labor force will probably increase at a rate somewhat greater than previously and in the productive age groups, it may be handicapped in competing with other areas in an economy where increasing emphasis is being placed upon technology and skills. On the other hand, as the income differential between the South and the rest of the United States is reduced, we should expect the economic magnet that has drawn Southerners away from the region to lose some of its power.

Capital Investment

During the foreseeable future, all signs point to heavy demands for capital investment funds. In addition to the funds required by business, the nation will need increasing amounts of funds to finance residential construction. Not only will there be more people to house, but the number of household formations will upsurge strongly. One authority has estimated a need for 2½ million new housing units each year by the 1970's, compared with a little over one million today.

If our projection of the increasing role of the Federal government is correct, we are probably going to compete with the government for available long-term funds. State and local governments—which normally finance their capital outlays by borrowing—will also be bidding for the nation's savings to meet the cost of public facilities, especially in urban areas. Over the long run, these capital needs must be financed out of the nation's financial savings. As income expands, we should expect some improvement in the nation's rate of saving. Nevertheless, in the future, needs for funds will press hard against the funds available from the nation's savings.

Thus, the South is going to face an even fiercer competition for capital funds than in the past at the same time that it needs an increasing share in order to attain a faster-than-national economic growth. Southerners should be saving more of their incomes in the future. Financial savings in relation to per capita personal income have averaged around 60 percent of the national average in the South during the 1960's. Possibly, as Southern incomes expand, the rate might increase to 70 or 75 percent of the national average by 1975. The South, however, will continue to need more funds than can be generated within the region, and it will get these funds only if the economic opportunities to use the funds in the South are as good or better than elsewhere.

Capital investment funds will be attracted to the Southeast by three major forces, one of which is the continued growth of the southern market. Here the prospects are good because of income growth.

A second force attracting capital investment is our labor supply, where the picture is somewhat less optimistic. We shall continue to have a source of labor for industry and nonfarm activities because of declining needs for farm labor. The National Planning Association projects that the relative importance of agricultural employment in the Southeast will be only half as much in 1975 as it is today. But if the workers released from agriculture and the expected additions to the labor force are going to constitute an attraction to capital investment, Southerners will have to develop the skills that will be at a premium in the more technologically oriented processes. This goes beyond manufacturing,

since, according to expectations, employment in services, state and local governments, finance, insurance, and real estate, and construction—not manufacturing—is expected to experience the greatest expansion.

The third major force that may attract capital investment is natural resources. In the postwar period, the South's petroleum resources, water supply, and fast-growing trees were responsible for attracting a major portion of capital investment funds. The South's comparative advantage in respect to its natural resources in the future is hard to judge, but this force will be major in determining the success of the South in attracting capital investment.

The Consumer

By speculating about how the South will share in the nation's economic growth, we are likely to forget that, even should the South share less in the nation's growth than we might hope, income in the area is going to expand substantially. Moreover, we know that when consumers get more money they will spend it, and we can be fairly confident of a consistent pattern of consumer behavior.

There will be, if one Census projection is correct, about 6 million more consumers in the eleven Southeastern states in 1975 than ten years previously and 15.5 million more in 1985. Even if per capita income were to remain the same and the proportion of income saved and going for taxes is unchanged, we should expect an increase in total consumer spending of 11.3 and 35.8 percent, respectively, from 1965 to 1975 and 1985. But per capita incomes are going to rise faster than population if the projections have any validity. Consumer spending could increase equivalently. As their incomes rise, consumers will probably save a little more. And if government activity heightens, they may pay more in taxes. We may need to shade our expectations a little bit; but since it seems probable that a given dollar of additional income in the Southeast will continue to produce greater consumer spending than in the rest of the United States, the Southeast will remain one of the most rapidly expanding consumer markets.

But how will the Southern consumer spend his income? Because of growing income and reduced inequality of income, we should expect that the greatest growth in consumer spending will not be for what we now consider essentials but, rather, for such items as automobiles, recreational equipment, more expensive clothing, and services. This is the general pattern consumers follow when their incomes rise. We should expect a more rapid increase in the spending for services in the Southeast than has previously been the case.

The general tendency for consumers to shift their patterns of spending away from basic necessities as their incomes rise will be modified by the change in the age distribution of population and where Southerners will be living. Younger persons have different demands than older persons; and, as earlier noted, there is going to be a substantial shift in the age composition of our population in the next ten years or so. There is likely to be a strong demand for the goods and services preferred by younger people and by those forming new families. Thus, housing and related commodities and services will be in high demand.

These developments, of course, will have a differential impact in different areas of the Southeast, the greatest impact being associated with income differentials rather than population change. During the 1950's the suburban markets gained a more-than-proportionate share of retail spending as measured by population growth because of the greater expansion in income than in either the central cities or non-metropolitan areas. This trend will probably continue.

Continued Change

Looking backward and comparing where we are now with where we were not too many years ago is satisfying to Southerners. We sometimes feel a little rosy glow when we note the accomplishments measured in terms of economic welfare for the South since the end of World War II. It is especially reassuring to us because we have positive proof of progress. Looking ahead will not give us the same feeling of euphoria, since we can never be completely certain about what will happen. But looking backward will benefit us little unless it helps us meet future problems.

The process that produced rising incomes in the South is one of change. These changes were not just exactly like many of us expected them to be 25 or 30 years ago. Neither will future changes be exactly as we predict today. One thing is certain: the economy will be a changing one. If the South retains its greatest asset, the ability to change, we can be confident about the future.

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