Long-Term Economic Outlook for the United States and the Southeast
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Our economy's performance over the past 12 months has given many of us cause to reflect on the factors underlying our current, somewhat intermittent pattern of growth and what lies ahead until the end of the century. The United States enjoyed an extremely rapid and robust recovery and expansion during 1983 and 1984 after the most serious recession since the troubled era of the 1930s. As the economy grew, the nation's unemployment rate fell markedly from 10.8 percent in December 1982 to almost 7 percent two years later. Moreover, this growth was not accompanied by significant upward pressure on prices. Instead, inflation remained around 4 percent, quite low in comparison to the double-digit price increases to which we had become accustomed in the 1970s. To some observers, the United States seemed poised for a period of stable, noninflationary growth unparalleled since the 1950s.

In contrast, during much of this year growth has been slower although recently consonant with our long-run growth potential of 3 percent. Perhaps more troubling, growth has been less consistent from one sector of the economy to another. While inflation remains in check and we've made some progress toward reducing the unemployment rate, joblessness in some states, including several in the Southeast, is still over 10 percent. These states typically are heavily dependent on farming and manufacturing. Many farmers as well as their financial institutions face impending crisis. Manufacturing plants producing items ranging from farm machinery to clothing and capital equipment are being forced to furlough workers and in some cases shut down permanently because they are unable to meet the onslaught of foreign competition. Areas of the Southeast long dependent on such labor-intensive industries as apparel have been especially hard hit. What lies behind the poor performance of certain industries and sectors, and what does it portend for the long-term future?

Several factors account for our current economic imbalances. For example,

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worldwide surpluses of agricultural and certain other commodities have been depressing prices, thereby reducing incomes of U.S. farmers and exacerbating their debt situation. The financial markets, still adjusting to a less regulated environment, have other problems as well. In my opinion, though, one factor stands out as the crux of today's woes and the potential source of enormous problems in the future. That is the very large federal budget deficit our government has incurred in the last few years.

This deficit initially had a stimulative effect on the economy. Lower taxes encouraged spending by both consumers and businesses. Increased government expenditures also fueled growth. However, this spending spree was financed largely by borrowed funds, drawn to a considerable extent from abroad. The reason foreigners have been willing to augment our inadequate pool of savings stems basically from the size of current and prospective budget deficits and the expectation that U.S. interest rates would need to remain high to finance the deficit.

The attractiveness of investments in the United States to foreigners has not been without its price. As demand for dollar-denominated assets strengthened, so did the dollar relative to foreign currencies. The dollar rose over 90 percent from 1980 to 1985. Consequently, domestic producers found it harder and harder to compete against imported goods, and export-dependent farmers and manufacturers faced growing resistance abroad to purchases of their increasingly expensive goods. Our trade deficit has grown as quickly as the federal budget deficit and has turned us into a debtor nation.

To what extent will these deficit-related problems influence the course of our economy through the remainder of this century? Of course, a number of other factors will shape our longer-term outlook. Demographic changes, for example, will be an important influence. The aging of our population has serious implications for the way we shape many social programs as well as pensions, health care, and other retirement benefits. The maturation of the baby-boom generation and its now nearly complete absorption in the labor force augurs positive trends for the unemployment rate, which

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should ease as fewer new job-seekers enter the labor force each year. In fact, labor shortages could be a problem in some areas. Since the Southeastern economy has grown so much in response to in-migration, changes in demographic patterns could entail a deceleration in regional growth, although these could be offset somewhat if past inter-regional migration patterns persist.

Another factor will be technological innovation, not only in the computer field but also in commercial applications of advances in genetics, optics, and many other scientific fields. We may see industries as yet undreamed of except by a few visionaries become catalysts of new economic and employment growth. Whether the Southeast shares in this technological boom will depend largely on the quality of our human capital. Underinvestment in schools and universities by regional policy makers could be extremely short-sighted.

Further globalization is also likely to affect our economy as the development we have sought throughout the post-World War II era in the Third World is finally reaching fruition in many countries. This trend could entail shifting comparative advantages for some industries we have long considered basic -- not only labor-intensive industries such as apparel but also those that are quite capital-intensive, including parts of the steel industry. This last factor has serious implications for many states and rural areas in the Southeast, where attracting industry on the basis of low-cost labor may no longer be a viable industrial development policy.

Notwithstanding the importance of each of these factors, I believe that the budget deficit could play the critical role in our economic performance from now until the turn of the century. If we do not soon address this critical problem by bringing government spending and revenues into line, simply servicing the debt we have already incurred will become an onerous national burden. Foreigners will eventually become reluctant to continue financing our consumption, and we will have to reduce spending drastically to increase savings enough to pay off the enormous debt we are accumulating. The more we

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wait, the longer this pay-off will take. Thus, we could well be forcing our children and even grandchildren to save more in what would normally be their peak years of consumption in order to pay for our profligacy today.

If, however, we come to grips with this issue, I am optimistic that the benefits would be felt rather quickly. As our need for credit diminishes, interest rates could ease, and, with that, the value of the dollar could fall as well. This development would result in an improved situation for those American industries and farms most sensitive to international pressures, probably starting within a year.

If such progress toward substantially reducing our deficit can be made, given the other factors I have mentioned, I foresee a period of strong growth for the U.S. and southeastern economy from now until the end of the century. If we, as a nation, fail to face this problem, however, I am deeply concerned about the legacy we shall leave to the generation coming of age in the twenty-first century.

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