


**ECONOMIC PERSPECTIVE ON THE SOUTHEAST**  
**Remarks by Robert P. Forrestal, President**  
**Federal Reserve Bank of Atlanta**  
**to the Atlanta Rotary Club Seminar at Georgia State University**  
**March 14, 1988**

I. Introduction

- A. I'm glad to have the opportunity to be a part of this discussion on how the pieces of our economy fit together.
- B. Dr. Ratajezak has talked about some of the characteristics of the Atlanta economy, and I'm going to give you some ideas how the next largest unit of the economic organization works.
- C. I'll focus on what the economy of our region--the Southeast--is like today and what problems we have to solve to make it better in the future.

II. First we need to define what we're talking about when we say the Southeast.

- A. The names we give to various regions of the country are not very precise, and people often have different ideas about what states should be included when we talk about "the Southeast."
  - B. Today I'm going to include the six states that make up the District of the Federal Reserve Bank of Atlanta--Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee (Transparency 1: The Southeast).
- 

- C. Although there are good reasons for including North and South Carolina or even Virginia and Kentucky, we will get a good idea of the regional setting which Atlanta's economy serves if we look at the characteristics of those six states.

### III. Economic Diversity in the Southeast

- A. The Southeast is an interesting region because it contains some very different economic elements--in a way it is like a mirror of the economy of the nation as a whole.

- B. We can break economic activity down into three large categories: primary industries, which take resources directly from the earth; secondary industries, which turn raw materials into products; and tertiary industries--services people perform for other people.

1. In the Southeast we have very basic forms of economic activity, or "primary industries," like agriculture and forestry in the rural areas throughout the region as well as fishing along our coastlines; these industries basically "extract" raw materials from nature.

2. Another type of primary industry is mining of natural resources, and our region has a variety ranging from oil and natural gas in Louisiana to coal in Alabama and Tennessee, kaolin clay in Georgia, and phosphate in Florida.

3. Secondary industries, which turn raw materials into manufactured

products, are another aspect of economic activity.

- a. In the Southeast manufacturing is quite important.
  - b. Traditionally factories that made textiles and clothing were the dominant type of industry.
  - c. Their presence was tied to the "primary sector"--especially agriculture and cotton farming.
  - d. These industries are still important in Georgia, Alabama, Mississippi, and to a lesser extent, Tennessee.
  - e. Similarly, the region's abundance of forests has made the processing of raw timber into lumber for houses and furniture a major industry in the Southeast.
4. More recently, however, manufacturing is less tied to local raw materials.
- a. For example, production of cars, trucks, and airplanes--as well as parts like tires for them--is of increasing importance in Tennessee, Georgia, and Alabama.
  - b. Also, high-tech products like computers and their components--as well as items related to national defense and the space program--are made here--especially in Florida, but also in Georgia and,

Alabama (Huntsville).

5. Our region has also seen strong growth in the third major economic sector called "services," especially in urban areas like Atlanta and Nashville and in the entire state of Florida.
    - a. Services include work that people do for other people as opposed to the manufacturing of tangible products.
    - b. Services run the gamut from transporting goods from factories to stores, selling them in stores, and even exchanges that involve no goods at all like programming computers, giving advice on tax returns or legal matters, preparing and serving food in restaurants, cashing checks, and styling hair.
    - c. Working for a city, state, or federal government agency, including teaching in public schools and universities, is also part of the service sector.
  6. Finally, the construction industry, which builds our houses, apartments, and hotels, as well as office buildings, shopping malls, and factories is important to some degree in all areas.
- C. When we evaluate economic activity in a state or region, we usually use employment--the number of jobs provided--as a main measure.
1. The percentages of people in the Southeast employed in the various types



of economic activities I just outlined can be seen in this graph  
(Transparency 2: Employment in the Southeast by Sector). 2

---

2. Primary economic activity has become very small in recent years--so small, in fact, that we don't include it in this chart.
3. Secondary industry, that is, manufacturing, makes up about 17 percent of our region's total employment.
  - a. This number is getting smaller all the time because more and more manufacturing is done by machines rather than people.
  - b. In fact, manufacturing's share of employment was 1 percent lower in 1987 than in 1986.
4. Most of the rest of the graph--about two-thirds of it--shows service-type employment.
  - a. You can see that trade is the largest employer.
    - (1) Trade includes the selling of products through stores like department stores and supermarkets.
    - (2) It also includes wholesale distribution.
  - b. Personal and business services like hospitals, hotels, movie theaters, and professional work (law, engineering and so on) are a

close second.

- c. On this chart financial services like banking and sales of stocks and bonds are a separate category.

- 5. Employment in government--another kind of service--is about equal to manufacturing at 18 percent.

D. Let's look at one more chart to see how our region compares to the rest of the nation in our rate of growth in all these industries (Transparency 3: Employment).

- 1. This chart shows in percentage terms how many new jobs were added compared to the year before for the entire United States and for the Southeast.
- 2. You can see that in the last 5 years we have done better than the national average and expect to continue in the same way this year.
- 3. Last year, for example, we gained 3.6 percent more jobs over the total number at the end of 1986, at a time when the number of people working in the entire country rose 2.5 percent.

E. Now that is a very good record, but it is a little deceptive.

- 1. There are some areas in the Southeast that are doing very well and bringing the average for the entire region up, while other areas are


performing much worse than the national averages.

2. This next chart, showing unemployment for the region's states, gives us a clear picture of this difference (Transparency 4: Unemployment Rates).
  3. Only two states--Georgia and Florida--have unemployment rates below the national average.
  4. At the other extreme, Louisiana has the highest unemployment rate in the United States, and Mississippi isn't far behind.
- F. This difference between the eastern states of Georgia, Florida, and Tennessee and the western states of Alabama, Mississippi, and Louisiana can be explained by types of economic activities that are the most important in each area.
1. The problem in Louisiana is the state's reliance on the oil and gas industries I mentioned a moment ago.
    - a. When prices for those products were high in the 1970s, the state was quite prosperous.
    - b. In the 1980s, however, the price of oil came down almost by half, and that meant that much less money was flowing into the state.
    - c. As the petroleum industry cut back production, people lost jobs and had less money to spend on products in stores or on buying new houses.

- d. That meant that people in construction, trade, and services also lost jobs.
  - e. Many of these jobless people moved to neighboring states in hope of finding work there--this is one of the reasons Mississippi's unemployment rate is so high.
2. The economies of Mississippi and Alabama have been hurt by reliance on other types of primary production.
- a. Prices for farm commodities and other raw materials these states produce have also been low for several years, not only in the United States but all over the world; so as in the case of oil, less money has been coming into Alabama and Mississippi from sales of their products.
  - b. In addition, much of their manufacturing is in industries like the clothing industry that pay low wages to workers that are not highly trained.
  - c. In recent years many of these jobs have been lost to foreign countries like Taiwan, Korea, and China, where workers are paid even less.
  - d. When low-skilled workers lose their jobs, it is difficult for them to find new work, and this can add to the strain on an entire state's



economy.

3. In contrast, the states of Georgia, Florida, and Tennessee have had good growth--good enough to keep the region's overall performance above the national average in spite of the difficulties in Louisiana and Mississippi.
4. There are two main reasons for the economic strength of Georgia and Florida:
  - a. One is the fact that lots of people have been moving to the Atlanta metropolitan area and Florida (Transparency 5: Population Growth, 1970-87). 
  - b. The second is the growth of service-based economies in those two places.
5. People move to Atlanta because there are many new jobs here, especially in higher skill, higher paying careers;
6. They move to Florida partly for the same reason and partly to retire; Florida also attracts tourists with its beaches and attractions like Disney World.
  - a. When new people move into an area they create just the opposite conditions we saw in Louisiana--they stimulate growth in many areas of the economy.

- b. New people require new houses, stores, office space, and the like.
  - c. This means more employment in construction.
  - d. It also means jobs for personnel in department stores, doctors offices, movie theaters, and so forth.
  - e. It is this sort of contagious growth, where expansion in one part of the economy helps create growth in other parts, that has helped the service industries to expand to become the most important employers in Atlanta and Florida.
7. Notice that I keep saying Atlanta, however--that is because the economic picture of the state outside the Atlanta area is not at all the same.
- a. In the rest of Georgia, the economy is more dependent on low-skill, low-wage manufacturing jobs and agriculture.
  - b. That is, rural Georgia has many of the problems we saw in Louisiana and Mississippi.
  - c. Because Atlanta keeps growing while these areas remain stagnant or even lose ground, we often hear that there are "two Georgias" in economic terms.
8. The last state, Tennessee, has pretty good balance between services and

and primary and secondary production in its economy, and for that reason it is growing at a moderate but healthy rate.

IV. We have already come across a number of problems that face our region, and I'll use my last few minutes to bring these together into four general issues that must be addressed by planners and policy makers as we prepare for the future.

A. One is the need for states like Louisiana that are overly dependent on primary industries to diversify into other types of activities.

1. As I said a moment ago, the problem with primary industries is that the prices of commodities like oil or farm products are not steady, and when they fall, the whole economy around them suffers.

2. Right now because prices for some of these commodities have gone up on world markets, I expect the economies in these states to improve a little.

3. But for the future, the planning in these states should emphasize the service industries and manufacturing that employs more advanced technologies.

B. A similar problem is the split between urban and rural economies in some of our states that I mentioned when I talked about Georgia's economy.

1. It will be hard to close this gap because, as we've seen, growth in the urban areas generates more growth and economic strength.

2. At the same time, workers in the rural areas don't have the training to adapt to new jobs; so industries are more likely to leave the rural areas than move there.

C. The main way we can encourage improvement in our rural areas and also diversification into more high-tech manufacturing is to improve the educational systems in our region's states.

1. In the past, many of our workers have been employed in jobs like agriculture, natural resource extraction, and low-skill manufacturing that didn't require much training.
2. Therefore, our states haven't invested as much in education as states where workers with better skills were needed--except for Florida we still end up at the bottom of the list of amount spent per pupil on education each year.
3. Not surprisingly high school drop-out rates are higher here.
4. All of these facts mean our labor force is not keeping up with the rest of the nation's, and eventually that will hurt our chances of bringing new industry to the region.
5. Not only must we think about other parts of the U.S., but we must compete with workers in the rest of the world.
  - a. As I mentioned a moment ago, we have already lost many of our low-paying jobs to other countries.



- b. In the future, we will be competing with other countries more and more for high-skilled jobs and services as well.
- 6. The only way to prepare for this competition is to make sure that graduates of our schools can do a variety of things and not be stuck in one kind of work.
- 7. This way, they can adjust to changes in technology and move to new jobs when old ones become obsolete.
- 8. Therefore, improvement of education is something all our states must pay attention to.
- D. One other problem that stands out involves the areas that are growing the fastest--Florida and the Atlanta area.
  - 1. Their problem is to manage the growth that has made them prosperous.
  - 2. Their schools, highways, sewage and water systems and other types of public-use systems that we call "infrastructure" are already overburdened, but more people are adding to the demands on the infrastructure every day.
  - 3. This creates a threat to the environment and the quality of life.
    - a. Remember that many people go to Florida because of its natural

beauty and good climate.

- b. But if they have to sit for hours in traffic, breathe polluted air, and worry about their drinking water, they'll start going somewhere else.
  - c. The same is true for the businesses that have been locating in Atlanta--they moved here, and they can always move somewhere else.
4. So we have to be careful to keep up with the demands that growth places on our various types of infrastructure and be willing to pay with our tax dollars to keep those systems in top shape.

## V. Conclusion

- A. We could go more deeply into any of these areas that I've outlined this morning, and I hope you will.
  - 1. Our bank has a magazine called the Economic Review, and the latest issue discusses the future prospects of our region in detail.
  - 2. I've given copies to Dr. Armento.
- B. Just to summarize the main points, however, remember that our region has had very sound economic growth for several years now.

1. That growth has been led by the service-based economies of Atlanta and Florida.
  2. In other areas growth has been uneven because of too much reliance on primary industries and low-wage manufacturing.
- C. The future of the Southeast lies in greater development of information-based businesses--whether in services or manufacturing--that require high-skilled workers.
- D. To make sure that our workers are properly prepared for these new types of jobs and flexible enough to meet competition from other countries, it is most important that we invest more in educating our people and that you and your classmates work to make the most of the educational opportunities you have.