**REGIONAL ECONOMIC GROWTH AND DEVELOPMENT**
**The 1988 J. W. Fanning Lecture**
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Good morning! I am greatly honored to have been invited to give the J. W. Fanning Lecture for 1988. The Fanning lecture series is an evolving tradition here at the University of Georgia and serves the valuable purpose of bringing together members of the academic and business communities to discuss issues of mutual concern. I hope to contribute to that discussion by giving my perspective on how the fast-moving currents of change in the international and national economies will affect our region and in particular southeastern farmers.

As all of you know, recent history has not been kind to agriculture. Like their counterparts in the rest of the United States, the Southeast's farmers have experienced difficult years during a period when the economy as a whole has enjoyed a continued expansion. The fact that our own region has been growing faster than the rest of the nation makes this an especially bitter pill. Fortunately, I think that the worst is over and that agriculture is on a steady, if slow, course to recovery.

In a larger sense, of course, agriculture exists in the context of the national and regional economies. Farming has long since ceased to be an activity carried on by rugged individualists, isolated in the countryside. Today it is a business that is interdependent with other elements of the economy, whether in the acquisition of capital or in the pursuit of markets. For that reason, I would like to begin by discussing the outlook for the international, national, and regional economies. Then I'll offer some remarks on southeastern agriculture. I will conclude with several comments on a few major issues that will be decisive factors in the future growth of the Southeast.

**The International Economic Outlook**

To begin, then, let me paint a very broad-brush picture of the economic outlook. Today, when we try to discuss what lies ahead economically, it is imperative that we take a global perspective. Because of the sheer size of our domestic economy, our home markets were the sole focus of most American business people until quite recently. Lately, however, Americans have become increasingly conscious of the broadening scope of that marketplace. The dollar's appreciation on foreign exchange markets from 1980 to 1985 hit our manufacturing sector hard. It showed us that there were numerous competitors abroad ready to take market share away from us and hold it with their high quality products.

Agriculture, too, was hurt as the high relative value of the dollar made American commodities more costly than those of competitors. At the same time the fruits of the green revolution ripened. Countries like China, which could once be counted upon to import American grain, actually became net exporters. More recently, the stock market crash amply demonstrated the high level of worldwide integration in money and capital markets. Thus, in all aspects of commerce we found goods and services that were once virtual monopolies for American producers being purchased from providers in Tokyo, Hamburg, and Seoul as well as in New York.

At the present time, a new development is taking place in this global market. There is a fundamental structural transition underway in most of the world's industrialized economies. For example, the United States is in the midst of a transition from an economy driven by consumption to one which will rely upon exports for a great share of its growth. In the economies of our major trading partners, the mirror image of this process is taking place. Their economies are shifting to their own domestic demand and away from exports as the main source of growth.

This transition is not entirely new. It really began, at least in the United States, during the last quarter of 1986, when the effect of the falling dollar began to show up in improvements in real net exports. Exports have continued this course nearly uninterrupted through the latest trade figures. This shift is not yet clearly indicated by certain macroeconomic indicators like gross national product, whose growth may remain moderate in spite of increasing exports. What is significant, however, is that the economy continues to find sources of strength as the current expansion moves into its sixth year. In the United States real GNP growth averaged 2.9 percent in 1987, not much different from 1986. This rate of expansion helped lower the unemployment rate to 5.8 percent by December of last year, the lowest it has been in eight years. In March, the latest month for which figures are available, the rate of joblessness was even lower, down to 5.6 percent. Looking to 1988, I see a continuation of expansion, albeit at a slower pace of about 2 and 1/2 percent.

The source of strength underlying this encouraging forecast is the greater balance being developed in the U.S. economy. As the United States makes the transition from a consumption-driven to an export-driven economy, our manufacturing sector is recovering some of its health. The dollar's substantial decline over the last three years is having very positive effects on those goods that are exported and, to a lesser extent, on products which are sensitive to import competition. Other sectors that had been lagging can be expected to contribute more as well. Farming prospects look reasonably good--a welcome change from the bleak years of recent memory. I will have more to say in a moment about how changing conditions in world markets will affect agriculture. Continued stability in oil prices should help the energy sector. This return to greater economic equilibrium should help those areas of the country that have been bypassed by the current expansion. The midwestern farmbelt; the oil patch of Texas, Louisiana, and Oklahoma; and the industrial heartland of the northeastern and north-central states should now see much more growth.

Looking beyond the United States, we find that the same dynamics affecting our economy are working in the opposite direction in other advanced economies. Both the price impact generated by the lower dollar and slower income growth will continue to dampen the important export sectors of Europe and Japan. Whereas the worldwide transition is bringing more balance to our economy, however, it is not likely to help the economies of most other industrialized nations. That is because consumption fueled by domestic demand has not been taking up all the slack left by waning exports in these countries; therefore, their growth is likely to be slower than in the United States.

This structural transition will be painful both for American consumers, who will not be expanding their purchases by as wide a margin as earlier, and for Europeans and Japanese, who face some dramatic changes in moving from export- to domestic-stimulus. Nevertheless, this turnabout is a much needed development that will bring global markets more into balance. Our greatest challenge at this point is to have the patience to let market dynamics work to foster this rebalancing. It is crucial that we resist the temptation to attempt a "quick fix" of the U. S. trade deficit by resorting to protectionist tactics. Instead, we should think in terms of eliminating more trade barriers. Ultimately, this means the ultimate removal of the various subsidies and tariffs that countries around the world apply to agriculture. I am not saying we should do this unilaterally or suddenly because the situation in agricultural commodities is a very complex one. Moreover, farmers are still in a weakened condition due to other economic factors. However, over the long run, the various programs that protect agriculture here and in Europe in particular do more harm than good. They push up prices in domestic markets and pose a stumbling block in the path of efforts to reduce protective measures in other areas. The interests of the global economy and of our country within that global economy would be better served if our assistance to farmers took the form of debt restructuring or guarantees for capital financing than price subsidies that distort prices on world markets. In this way, we could demonstrate our resolve to maintain free and fair competition and stand on solid ground when we urge others to do the same.

**Outlook for the Southeast**

Having discussed the national outlook in terms of a significant shift from consumption to exports, let me turn to the Southeast and talk about how this transition will affect us at home. Because of the anticipated increase in exports, the likelihood of continued or even faster growth in manufacturing bodes well--at least for those regional factories that have been modernized. There is a slight hitch in the effects of the currency realignment as far as southeastern industry is concerned, however. It is true that last year the dollar finally began to depreciate against the currencies of Canada and developing countries in the Pacific basin--the chief competitors of many regional industries like apparel. Yet the amount of currency realignment is quite small compared to the dollar's fall against the yen, deutsche mark, and currencies of other advanced economies. Moreover, cost structures in many of these developing countries are far more favorable to the kind of low-wage, labor-intensive production that became the staple in much of the South as the labor force shifted out of farming. Thus, for many of the region's industries the likelihood of substantial improvement is not high.

In terms of specific states, those in the eastern portion of the region--Georgia, Florida, and Tennessee--can expect to see more of the good performance they have experienced of late. These states enjoy diversified economies, in which more technologically advanced manufacturing and a growing service sector help offset weaknesses, whether in industries like apparel which have been battered by imports or the production of phosphates and other commodities whose prices remain depressed in world markets. Of course, rapid population growth is also a boon, especially to Florida and Georgia.

Louisiana and Mississippi will do better than last year, which appears to have been the trough. However, the upturn in manufacturing that the rest of the country has been experiencing may largely bypass Mississippi since so much of its factory output is in the low-wage sector, where developing countries have a decided advantage. Louisiana's situation is in some ways worse because its economy is so lacking in balance. Even its small manufacturing sector is tied largely to energy. However, if oil prices remain fairly stable, the modest recovery in drilling activity should continue and expand in 1988.

Alabama occupies the middle ground both in terms of geography and economics. Manufacturing gains should help this state further the advances begun last year, since its economy remains heavily oriented toward industrial production despite growing health and educational services, especially in Birmingham. In addition, with somewhat brighter prospects for farming and energy, Alabama's still important natural resources sector should experience some improvement. Indeed, coal production had already begun increasing last fall. On balance, the Southeast should outperform the nation again in 1988, drawing strength from the same international forces that will boost manufacturing in the nation as a whole.

As we have seen, the outlook for the nation and the Southeast holds several positive indications for farmers. Farm prices for crops like soybeans, cotton, and rice are up substantially over last year at this time. Also, worldwide supply and demand seem to be moving closer to some sort of balance. In 1987, agricultural exports rose in value from their low point in 1986. The picture is even brighter when we look at volume of farm exports rather than value. In this marketing year the volume of wheat exports is up nearly 50 percent and corn, 25 percent. Cotton and rice export volumes are off slightly, but only because they enjoyed such rapid growth last year. Aside from this good news in world markets, farm assets have stabilized after falling dramatically between 1982 and 1987. In addition, farm debt has declined as farmers have paid off more debt than they have taken on recently. Taken in sum, it appears that we should see higher farm incomes and some relief from the financial distress that has beset agriculture.

To their credit, farmers in our region have tended to be more diversified than those elsewhere, making them less vulnerable to adversities in two or three main products. This fact makes their prospects better as long as the region's economy remains strong. Moreover, southeastern farmers have had relatively more recourse to off-farm income, either through part-time employment or the income of a spouse. Also, during the 1970s farm assets did not climb as high in this region as in, say, the Midwest. Thus they did not have as far to fall when the crunch came, and the net worth of farmers did not suffer as much as in other areas. As I said at the outset, then, I feel that farming may be in a position to recover, even though many problems still remain to be overcome.

**Issues in the Region's Economy**

From what I have said to this point, it should be clear that I feel international developments will continue to play an important economic role in the nation and our region in the immediate future. I would like to use my last few minutes for bringing together several other threads I touched on earlier. I also will try to define several other issues that must enter into our thinking here in the Southeast as we look toward future development.

One of these issues is the need for states like Louisiana that are overly dependent on farming, forestry, mining and other primary industries to diversify into alternative activities. Disproportionate reliance on natural resources in Louisiana and to a lesser extent Mississippi and Alabama makes these economies extremely vulnerable to price fluctuations on world markets. Thus when the prices of commodities like oil or farm products fall, the whole economy around them suffers. 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. For the future, though, state economic development efforts in the western states of our region should focus more on data processing, finance, health care, tourism, and other services as well as the types of manufacturing that employ more advanced technologies rather than seeking to recruit low-cost producers.

A similar problem is the split between urban and rural economies in some of our states. We hear a good deal about the "two Georgias"--the rubric we use to compare the brisk growth of metropolitan Atlanta with slower expansion outside the city. A similar gap has opened between the urban and rural areas of Mississippi. It will be hard to close this gap because growth in the urban areas tends to build upon itself, generating more growth and economic strength. At the same time, workers in the rural areas do not have the training to adapt to new jobs. Thus, in today's global economy with less developed countries offering even cheaper resources, industries that have been the staple of southeastern recruiters for decades are more likely to leave the rural areas than move there.

The main way we can encourage improvement in our rural areas and also the diversification into more high-tech manufacturing that some of our states require is to improve our region's educational systems. Education is probably the Southeast's greatest weakness. In the past, many of our workers have been employed in jobs like agriculture, natural resource extraction, and low-skill manufacturing that did not require much training. Therefore, our states have not 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 in terms of amount spent per pupil on education. Not surprisingly, high school drop-out rates are higher here. 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 in the competition with other regions for new industries.

As my comments on the globalization of markets imply, in the future our region increasingly will be in competition for jobs with workers in the rest of the world as well as with those in other parts of the United States. We have already lost many of our low-paying jobs to other countries. There is no guarantee that we will maintain our current dominance in services either. We have been experiencing keen competition from outside our borders in financial, insurance, and even janitorial services. The only way to prepare for this competition is to make sure that graduates of our schools have a variety of skills and do not become locked in to one kind of work. We should also explore ways to improve training programs for currently employed workers. In this way, our labor force can adjust to changes in technology and move to new jobs when old ones become obsolete. Therefore, improvement of education is a need that extends across all state boundary lines and should be the number one priority in the region.

One other problem that stands out involves the areas that are growing the fastest--Florida and the Atlanta area. Ironically, their problem is too much growth. They must find ways to manage the growth that has made them prosperous. Their schools, highways, sewage and water systems, and other types of public-use infrastructure are already overburdened. Meanwhile more people are adding to the demands on that infrastructure every day. This creates a threat to the environment, the quality of life, and the economy. People go to Florida because of its natural beauty and good climate. If they have to sit for hours in traffic, breathe polluted air, and worry about their drinking water, they'll start going somewhere else. The same is true for the businesses that have been locating in Atlanta. Services like accounting and advertising, communications, and overall corporate management--the recent RJR-Nabisco move offers a good example--are what economists call "footloose." These kinds of businesses moved here voluntarily--not because of any necessary resource linkage. Hence, they can always move to what they perceive to be a more hospitable location. 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.

**Conclusion**

I have covered considerable ground this morning, going from the structural transition under way in the world's economy to regional issues that call for careful thought from each of us here today. In between I have said that the outlook for the national and regional economies is good in the year ahead. I have also voiced my concerns on protectionism, which I consider to be one of the darkest clouds on an otherwise positive horizon. If there is a single thread that draws these ideas together, it is the urgency of expanding our thinking to include the implications of global dynamics as well as developments near at hand. I have no doubt that we will continue to prosper in the globalized marketplace both as a nation and as a region because we have always responded to competition with the will to win. Our will to win has not diminished. We must be certain, however, that we are adequately prepared to win. To be prepared for competition in an increasingly sophisticated arena we must educate and train and then reeducate and retrain as quickly as conditions change. If we are strong in preparation, none of us--farmers, manufacturers, or service providers--will have to resort to the losing tactic of hiding from competition behind protectionist barriers.

The United States of America is a vast continent with a strong and vibrant economy. In spite of problems, it is still the safe haven for those aspiring to a better social, political, and economic life. The Southeast also has been blessed with a flourishing economy in recent years. We can continue this record of growth both in the nation and in our region if we address our problems forthrightly and with the courage and determination that have characterized our nation since its inception. Thank you.