OUTLOOK FOR THE NATIONAL AND REGIONAL ECONOMIES
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Good morning! I am delighted to be with the Georgia Textile Manufacturers at your annual meeting and to have this opportunity to discuss the national and regional economies. It goes without saying that the textile industry is of great importance to the economy of the Southeast and particularly of Georgia. Textiles and the closely related apparel industry occupy the number one and two positions among all manufacturing activities in our state. By its decisive and forward-looking actions, moreover, the textile industry has also made itself more important to the entire nation in the past few years. It has done so through its exemplary performance in meeting the challenge of international competitiveness. By heavily investing in capital improvements, particularly in new and more efficient machinery, you have demonstrated the correct strategy for adapting to today's changing environment. I am referring, of course, to the globalization of the marketplace and the competition offered by new players with decided labor-cost advantages.

Because of your experience in that expanded market, I do not need to explain the increasing impact that developments outside our boundaries have on our economy at home. More and more, anyone attempting to do business must consider the international implications of each decision. Events like the worldwide stock market crash of last October made believers of many who had not yet broadened their horizons globally. We in the Southeast have several unique challenges to confront as participants in today's rapidly changing foreign and domestic markets. This morning I would like to bring those challenges into focus for you. Before discussing those issues, though, I believe it is important to set the context by making a few observations on the outlook for the international, national, and regional economies.

The National Economic Outlook

I look for the economy of the United States to grow at around 2.5 percent in 1988. The rest of the world's advanced economies should continue to grow at a slightly slower pace of about 2 percent on average. Inflation in the United States will probably average between 4 and 4.5 percent this year as measured by the Consumer Price Index. Unemployment dropped to 5.4 percent in April, its lowest point in fourteen years. Some further modest reduction is not unlikely, given the outlook for real growth. However, additional dramatic declines, such as April's, are not consistent with this moderate growth forecast.

The most important dynamic underlying my view of what lies ahead is a fundamental structural transition under way in most of the world's industrialized economies. On one hand, the United States is in the midst of a transition from an economy driven by domestic consumption to one which will rely upon exports for a greater share of its growth. Meanwhile, the mirror image of this process--that is, a shift to domestic demand and away from exports as the main source of growth--is taking place among our major trading partners.

Since the last quarter of 1986, the United States has seen the effects of the dollar's depreciation on foreign currency markets show up in steady improvements in real net exports. Indeed, the latest GNP report for the first quarter of this year showed a further improvement in real net exports amounting to $3.6 billion. I would like to emphasize that figure because, unlike the monthly merchandise trade number that came out a few weeks back, it is adjusted for both seasonal and price fluctuations. This stimulus from our export position is helping to revive sectors like manufacturing and agriculture, which had languished when the dollar was high. It should also bring more balance to our economy in general. At the same time, prospects of relative stability in oil prices augur well for the energy sector. This return to greater economic equilibrium should help those areas of the country that have largely 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 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 obviously be somewhat painful for American consumers, who will not be expanding their purchases by as wide a margin as earlier in this expansion. Europeans and Japanese are also facing some uncomfortable dislocation as they move from export-oriented 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 or counting upon further declines in the dollar. I will have more to say about this issue in a moment, but let me first say a few words about prospects for the Southeast and the textile industry.

Outlook for the Southeast

The shift from consumption to exports that is so important nationally will also affect the Southeast. 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. Some of our important industries have enjoyed a boost from the dollar's depreciation on foreign exchange markets. However, cost structures in many developing countries that are our region's chief competitors 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. What's more, as I just mentioned the currencies of these countries have typically appreciated far less than those of Japan and Europe. Thus, for some of the region's major 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 certain agricultural and other commodities whose prices still remain low 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 even 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 is likely to experience some improvement. Indeed, coal production had already begun increasing last fall. On balance, the Southeast will probably outperform the nation again in 1988, drawing strength from the same international forces that will boost manufacturing in the nation as a whole.

Textile Industry Outlook

One cannot really talk about the southeastern economy without discussing the textile industry because of its major role as a source of employment and of income. The last year or so has been very good for textile producers. Capacity utilization is high--over 90 percent at a time when capacity utilization for manufacturing in general is around 82.5 percent. Profits are up, as is employment. What's more, the probability for a continuation is quite good.

Such conditions are especially commendable in view of some research just published at the Atlanta Fed. Several members of the research staff constructed a currency index that focuses on those countries most involved in the textile industry. The results of this exercise have been quite interesting in several respects. First, and this probably comes as no surprise to you in the textile industry, our chief textile trading partners are not Canada, Europe, and Japan, as is the case generally, but rather Hong Kong, Taiwan, South Korea, and mainland China. Second, the dollar's well-publicized depreciation against our major trading partners has not been paralleled vis-a-vis the 31 textile and apparel competitors included in the new index.

When the dollar rose by 35 percent between early 1980 and February of 1985 according to more generalized trade-weighted standards, the currencies indexed for textile trade rose about the same amount. However, from February 1985 to the present, a period when the dollar has returned to its overall 1980 levels, our currency has fallen only 15 percent against the trade-weighted textile index. It hasn't moved at all against the currencies of Hong Kong and China, and only in late 1986 did it begin to fall against the currencies of Taiwan and Korea.

Thus the amount of currency realignment most relevant to the textile and apparel industries has been smaller and has come later compared with the dollar's fall against the yen, deutsche mark, and currencies of other advanced economies. Clearly, the inference is that your current auspicious circumstances owe more to internal retooling than to foreign exchange movements. The fact that some of your competitors' currencies have belatedly embarked on an apparent trend of appreciation is like icing on the cake.

Issues in the Region's Economy

The experience of the textile industry leads me to my final remarks concerning several vital issues. From what I have said to this point, it should be clear that I feel international developments will play an important economic role in the nation and our region in the immediate future. Paramount among these is protectionism. I am quite concerned about its apparent resurgence as a purported solution to problems brought on by the admittedly painful transition to a more globally integrated economy. As most of you no doubt know, I have been on record for some time as opposing anything less than optimally open markets. If we do not accept the challenge of free and open markets but opt instead for greater protectionism, the outcome will be fairly certain. A few protected producers will profit temporarily at the expense of everyone else. Because protective barriers reduce competition, the rest of us will face higher prices and fewer choices. We will see foreign countries retaliate with measures of their own that will slash our exports to them. American workers will lose jobs; U.S. businesses will lose foreign sales. Finally, as more and more countries protect and retaliate, we could encounter the kind of gridlock the world brought upon itself in the 1930s when international trade stagnated because of outrageous tariffs. When we have come this far toward a worldwide agreement to compete peacefully in the marketplace, one may ask why would we choose to make the kinds of mistakes that once brought about a disaster in world trade contributing to a debacle in world affairs generally.

Likewise, I feel the underlying problem of improving our nation's global competitiveness cannot be engineered through exchange rate targeting. I feel we are reaching the point of diminishing returns from the currency realignment that has been occurring for over three years now. The dollar fell to postwar lows against the yen and deutsche mark in late 1987 and the first part of this year. Should the dollar continue to drop so precipitously, the likelihood of increased inflation would become much greater. So would the probability of economic downturns in those foreign economies to whom we hope to export more. Alternatively, defensive maneuvers on the part of our trading partners could lead to a series of competitive devaluations and trade wars. As in the worst-case protectionism scenario, such jockeying for position might lead to global depression. In any of these eventualities, the ultimate consequence of raising competitiveness through dollar depreciation would be a lower living standard here.

If protectionism or the falling dollar, cannot be counted on to enhance our competitiveness, where does that leave us? We must look at the other basic determinants of competitiveness--productivity and quality. To increase productivity we need to invest more in both our physical and human capital. We cannot expect to squeeze much more out of labor costs. It is in this respect that your industry can serve as a model. Beset by competition from abroad, textile mill owners retooled and returned to profitability. I would like to see other industries with problems in competitiveness emulate the textile industry's approach.

I grant that capital improvements tend to eliminate jobs. For the most part, though, they have been low-wage jobs that probably would have been lost anyway to countries like Mexico, Taiwan, Brazil, and China. Those countries will be able to undercut our labor costs substantially unless the dollar drops to unacceptably low levels. Since the early 1970s, the textile industry has lost some 20,000 jobs. What is very important, however, is that the remaining 108,000 jobs have been saved. They have been saved because the industry has been revitalized in a manner that will allow it to compete internationally whether or not a trade bill with textile quotas is passed.

A second crucial step toward enhancing competitiveness involves reversing the perception held by many foreigners and increasingly by Americans as well that U.S. products lack the quality of our trading partners' goods. In the past, Americans have tended to make standard, mass-produced goods especially for our large home market. We made the Ford family sedans and the Kodak Instamatics and let others turn out specialized, high-quality products--Mercedes and Leicas--for a variety of markets. Again, the arrival of much lower cost producers has meant that we can no longer hope to survive by concentrating on low-end goods.

As we rethink our production objectives and move into the better quality niches, U.S. business leaders and workers alike will be called on to change old habits and ways of thinking. This shift requires a better educated work force at all levels. We need managers who can think analytically and creatively, who have the vision to see market opportunities in the far corners of the world. We must find ways to sell as aggressively in outside markets as we do at home. This means becoming more familiar with other cultures and systems of distribution that are different from our own. There are profits to be made if we can adapt our strategies to present realities. The current transition in the global economy is helping to level the playing field in terms of price-competitiveness. Rather than shrink behind artificial protectionist barriers that destroy competition, it is time for us to seize the initiative and reestablish our competitive edge in a newly defined worldwide market, a market which holds opportunities we have barely begun to realize.

These approaches are, of course, national in scope. There are in addition important measures leaders in the Southeast must undertake to remain competitive and support a higher living standard. One of these is 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 entire local--even state--economy 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 comparable 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. Moreover, given the higher level of skills demanded by many city jobs, even the seemingly easier strategy of letting workers move to cities where the jobs are, as opposed to the more difficult course of trying to bring jobs to rural workers, appears far less promising than in the past. The implications of this disparity are troubling. 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 communities have not invested as much in education as those in 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 dropout rates are higher here. All of these facts mean our labor force is not keeping up with the rest of the nation's. Eventually that will hurt our chances as we compete with other regions for new industries.

As my comments on the globalization of markets imply, in the future our region will increasingly 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 data processing 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 state boundary lines and should be the number one priority in the region.

One other regional 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 will surely 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. By the same token, we must 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 pretty 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 international dynamics as well as developments near at hand. I have no doubt that both the nation and the southeastern region will continue to prosper in the globalized marketplace because Americans 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--manufacturers, farmers, 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 founding. Thank you.