

**THE ECONOMIC OUTLOOK FOR THE NATION AND THE SOUTHEAST**  
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**To the Georgia Feed and Grain Association**  
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Good morning! I am delighted to be participating in the Georgia Feed and Grain Association's convention. My designated topic, the economic outlook, poses an interesting challenge, since people in your business are more in touch with certain aspects of the economy--and particularly with the international dynamics of today's economy--than are many economists. Your work demands continuous awareness of prices on the global commodities market as well as a sense of how events that often seem unrelated to those prices can suddenly cause them to change. I hope to contribute to the understanding you have already developed 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 agriculture.

As all of you know, recent history has not been kind to agriculture. Like their counterparts in the rest of the United States, southeastern 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. Southeastern farmers should experience rising incomes in 1988 provided they escape another severe drought. Unfortunately, that prospect has grown more threatening in recent weeks.

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 National Economic Outlook**

I look for the economy of the United States to expand at around 2.5 to 3 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 returned to 5.6 percent in May after falling to its lowest point in fourteen years--5.4 percent--in April. Some further modest reduction is quite possible, 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 the 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 \$3.9 billion. I would like to emphasize that figure because, unlike the monthly merchandise trade number that excites so much

interest from the markets each time it is released, real net exports are adjusted for both seasonal and price fluctuations and give us a more accurate reading of trade flows. 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 better economic balance 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. The price impact on imports generated by the lower dollar will continue to dampen the important export sectors of Europe and Japan. Consumption in these countries, fueled by domestic demand, has begun to take up much of the slack left by waning exports, though 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-based 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 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 might prove too disruptive to America as well as foreign producers if such a complex transformation were attempted too quickly. One impediment to reducing our own government's agricultural subsidies was pointed out in a recent study by Atlanta Fed economists. Their research indicates that many crop farmers--especially here in the Southeast--would be unable to cover their costs if it were not for government support payments. Soybeans might prove to be a rare exception to this pattern in 1988. If recent market prices within the range of \$8 to \$9 per bushel should persist, soybean farmers would be able to meet their costs. For most other crops, however, inventories are high enough to prevent drought-related price rises from reaching profitable levels without government subsidies. What's more, even if higher prices bring some short-term relief, farmers are still in a weakened condition due to other economic factors.

The fact remains, though, that 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, guarantees for capital financing, or even subsistence-level transfer payments rather 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 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, although their rates of growth will probably slow somewhat. 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 Tennessee. It has been a strong stimulant to Georgia as well, but since last year in-migration has dropped off considerably as economic recoveries in other parts of the nation have attracted some would-be Georgia residents away.

Louisiana and Mississippi will do better than last year, which appears to have been the trough. Mississippi's economy has been performing well recently as a result of the upturn in manufacturing that the country as a whole has been experiencing. However, in

the longer run Mississippi's manufacturing faces downside risks because it remains heavily dependent on 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. Steel production is currently rebounding thanks to the industry's improved competitive position. 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.

### **Agricultural Outlook**

As we have seen, the outlook for the nation and the Southeast holds several positive indications for farmers. Farm prices for cattle and calves and for crops like soybeans, corn, cotton, and rice are up substantially over last year at this time. Also, worldwide supply and demand seem to be moving closer toward 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 asset prices have stabilized

after falling dramatically between 1982 and 1987. In addition, farm debt has declined as bad loans have been written off, and farmers have paid off more debt than they have taken on recently. Taken in sum, these considerations suggest 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. The latter is significant since southeastern farmers have had relatively more recourse to off-farm income, either through part-time employment or the income of a spouse. Another positive factor for agricultural producers here is that during the 1970s prices of 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.

### **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 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 diversification into alternative industries in states like Louisiana that are overly dependent on farming, forestry, mining, and other primary industries. Disproportionate reliance on natural resources in Louisiana and to a lesser extent in Mississippi and Alabama makes their entire economies extremely vulnerable to world-market price fluctuations. 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 breach has been widening for the past decade between the urban and rural areas of Mississippi. It will be hard to close gaps like these because growth in the urban areas tends to build upon itself, generating more expansion and economic strength. At the same time, workers in the rural areas frequently do not have the education and 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. Eventually, and probably much sooner, 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 already begun experiencing keen competition from outside our borders in financial and insurance services, for example. 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 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.