

ECONOMIC IMPLICATIONS OF GLOBALIZATION ON THE SOUTHEAST
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Good afternoon! I am pleased and honored to be participating in this conference on educational strategies for the global environment. In thinking about how the United States--and the Southeast in particular--measure up as competitors in a globalized market, it seems that we continually return to the subject of education. Unfortunately, this perspective usually brings us to some fairly negative conclusions. Surveys report that U.S. high school and college students have an abysmal lack of awareness of the world outside our borders. Worse still, their math, science, and communications abilities appear to have declined on average from earlier standards. We clearly need to do a better job of providing our people with skills relevant to a changing economic environment. Thus, I would like to spend some of my time this afternoon discussing steps we must take in this region to create and sustain a world-class workforce.

Aside from our labor force, several other factors in the Southeast raise concerns about our ability to prosper in a global market. These include the need to attend to our environmental and industrial infrastructures, to rationalize our financial system, and to reform certain government institutions. I will elaborate on each of these subjects, but before I do, let me set the stage by discussing briefly the role of the United States in the emerging global economy.

The United States in the Global Economy

Evidence that this country is part of a more integrated worldwide market can be found in the expansion of U.S. international trade over the past 40 years. Since the second World War, the share of both exports and imports in the U.S. economy has grown very substantially. Exports, which were just over 7 percent of gross national product in

1947, ran about 14 percent of GNP total last year. The share of imports rose from 4 to 16 percent. We continue to see short-run changes in these proportions, but the underlying trend continues to be upward.

At the same time that our trade with the rest of the world has grown, advances in technology have made the movement toward globalization irreversible. Serious competitors in financial markets now conduct trading, investing, and other transactions on a 24-hour-a-day basis. When we wake up in the morning, news on financial developments in the Far East and Europe is reported by all major networks--something that rarely happened ten years ago. The increased use of computers, fax machines, and other high-tech communications devices make it possible to discover prices anywhere in the world and to do business with anyone at almost any time.

One aspect of market globalization has been the increase of direct investment in the economies of other countries. At first, much of this investment was done by U.S. companies investing abroad. Given our economic strength, this seemed quite natural and did not arouse much discussion--at least in this country. More recently, the rapid growth of foreign investment in the United States has commanded considerable attention, prompting some fears that we are losing our economic autonomy. Personally, I see these fears as misguided. The volume of such investment is still quite small. In 1987, subsidiaries of American companies employed over 6 million people abroad, whereas about 3 million Americans were employed by U.S.-based operations of foreign firms. Of course, foreign direct investment here may be growing more rapidly. Even if the percentage of U.S. jobs or real assets rises considerably, though, I think we have to keep in mind that this type of investment is not very volatile compared with the foreign holdings of U.S. Treasury and corporate securities. Thus, I do not see a need for concern on this point.

Of greater significance, in my view, is the fact that the increased importance of

both imports and exports has made the U.S. economy far more sensitive to fluctuations in the value of our currency in the foreign exchange market. For example, the prospect of large and ongoing federal budget deficits put great upward pressure on the value of the dollar relative to the currencies of our trading partners from 1981 to 1985. As a result, U.S. goods became more expensive for foreigners while their exports became cheaper here. This shift contributed to a massive U.S. trade deficit and prompted considerable contraction and restructuring in American manufacturing. The decline in the dollar since 1985 has made our exports more price-competitive, fortunately, and our net exports have improved in the past several years. Nonetheless, this experience impressed Americans that economic globalization can adversely affect fiscal and monetary policy here. Still, these changes are irreversible and, on balance, beneficial.

The increasing importance of foreign trade in the U.S. economy reflects the acceleration of economic growth worldwide. Markets for U.S. goods and services have expanded as incomes have risen in other nations. As other countries began to produce more and more items that are attractive to Americans, their exports to us increased as well. This mutual reinforcement underscores a significant point about the global economy. The economic integration of real and financial resources among all the world's countries is a dynamic event that makes the overall world economy grow larger. In this way, everyone's share in that economy can grow, and living standards can improve for people everywhere. This point seems obvious, but too often the growing pains that such a dynamic process entails can make us lapse into thinking that globalization is a zero-sum game in which others' gains come only at our expense.

Notwithstanding these generally positive aspects of economic globalization, increases in both trade and foreign investment patterns make it necessary for us as a nation and a region to take a thorough inventory of our comparative advantages. Because of our sheer size and wealth of natural resources, we will be an important player

in world markets no matter what we do. Nonetheless, if we are to remain an efficient player our job is to figure out what we do best. One thing this country clearly can no longer do is supply cheap labor to the rest of the world as we have in the past. There are people in far poorer economies who are clearly willing to work for a lot less than we are, particularly countries that are just starting to develop. The United States offered abundant, low-cost labor in the 19th century, and the South played a similar role in the nation's economy for much of this century. However, no one here can afford to work for third-world wages today. Thus we have no choice but to shift to types of production that are more compatible with U.S. living standards.

It makes no sense at all to subsidize outmoded industries through protectionism. To do so only weakens our economy and reduces our national welfare. Any increases in trade barriers on our part will bring on retaliation from our trading partners and destroy our own export markets. Instead of hiding behind artificial barriers, we need to confront foreign competition directly by developing our comparative advantages. I think you will agree that innovation and technology are this country's strong points. We need to apply our resources to honing our competitive edge in these fields rather than propping up outmoded industries.

Implications for Development in the Southeast

Now what does globalization mean for the Southeast? Unfortunately, it may be more difficult for us to adjust to the global economy than for other parts of the country since our region still lags behind that of the nation as a whole. While per capita income rose more quickly here than the national average after World War II, it basically plateaued at the start of this decade and has just barely kept pace in many areas since then. If we were to exclude the state of Florida, the Atlanta metro area, and a few other centers of rapid growth, we might actually be falling behind again. While the manufacturing heartland of the nation has prospered in the past few years as the decline

in the dollar stimulated net exports, much of traditional southern industry has continued to languish. This shows that our earlier reliance on low-skill, low-wage industries is no longer a relevant strategy, and we cannot expect to prosper by attracting industry with cheap labor.

Instead, we must concentrate on laying the foundation for economic development and reducing our emphasis on short-term growth. Let me emphasize the distinction between economic growth and economic development because it is an important one. While much of our region has seen fairly good growth, only part of this expansion has added to our capacity to grow further. Economic development means making sure that we have a capacity to grow in the future and to adapt to future growth requirements. To do this, we have to assess our strengths and weaknesses in several areas. Where we see weakness, we must begin to make changes. Four of the major factors we need to examine in this way are the Southeast's labor force, our environmental and industrial infrastructure, our financial structure, and finally, our governmental institutions.

Four Areas of Concern

I will begin with the labor force, where at this point the weaknesses seem to overwhelm the strengths. I refer, of course, to the relatively low level of education in most states in this region. While we have been catching up a little, southerners on average have attained fewer years of schooling and have a higher rate of functional illiteracy than is the case elsewhere in the nation. Adult illiteracy is at or above the national average in every state in the Southeast, for example. High school drop-out rates are also higher. Georgia has the fourth lowest rate of high school graduation among the 50 states. Only two-thirds of Georgia's teenagers finish high school.

Several southeastern states have taken steps to improve education. Georgia's Quality Basic Education program is one such initiative. Attempts have also been made to

bring teacher salaries closer to national standards. However, every southeastern state fell below the national average in per capita state and local spending for education in 1987. Thus further efforts are absolutely essential if we are going to build a labor force that can compete in the world economy and attract new businesses to the region. With regard to improving the levels of workers already on the job, we need to call on the "partnership with business" that is part of the title of this conference. Business involvement, as well as voluntary efforts, will be needed to combat functional illiteracy.

In tandem with such direct educational efforts, we must address the higher levels of poverty that make our region's population less receptive to education. Poorly fed and housed children learn more slowly and less effectively than people free of such stresses. Therefore, an attack on substandard living conditions in the region is not only our responsibility as a humane society, it is essential for raising the quality of our labor force. As we consider these kinds of improvements, it is important to remember that they fall into the category of long-term development. We cannot expect to make up for decades of neglect in a year or two; we must think in terms of a generation, perhaps two generations, before some of our most backward areas come up to speed. Thus we must be patient in waiting for our payback but confident that the rewards will be worth the wait.

A second focus for the region's self-assessment should be our environmental and industrial infrastructure. Clearly, the South is an attractive place to live. Our climate and the availability of land have lured many people and businesses to the region. Our well developed transportation systems--waterways, railroads, highways, and airports--are a source of tremendous strength today as they have been in the past. We need to be sure that we retain these valuable assets. We have to find ways to preserve our environmental amenities at the same time we promote expansion and growth. Otherwise we risk weakening the forces that attract people and industry and help us grow in the

first place. Some of our states, such as Florida, clearly have concerns about this, and anyone who drives north Atlanta's clogged roads at rush hour knows first-hand what I am talking about.

The base of our financial structure, a third area of concern, is generally strong in much of the region. Southern commercial banks typically have higher capital ratios than their counterparts in other regions. Nevertheless, our banking laws are in need of revision. Our states were among the leaders in developing a regional banking compact five years ago; however, much of the nation is now moving slowly but steadily towards nationwide interstate banking. Many of the 50 states have allowed banks from any other state to enter on a reciprocal basis, but few states in our region have taken this important step. One effect of continuing restrictions is that the large southeastern banks may have difficulty maintaining their relative size advantages as banks from other states with more liberal legislation expand. Clearly, our legislators and bankers need to rethink their priorities if our home-grown institutions are going to be able to compete effectively in the future.

This brings me to our regional governmental structures. Our state and local governments provide some good input to growth, but they have certain idiosyncracies that create problems, too. Most state governments here are generally favorable to business. Taxes in the region are relatively low, for example. The problem is that we have too much government. The layer upon layer of county systems, area authorities, and urban governments all add up to a massive and redundant structure. We elect so many officials at the state level that it is virtually impossible for our governors to develop and carry out agendas. Much of this fragmentation is a remnant of the Reconstruction era, when it was thought that dispersion and duplication would prevent any group from attaining significant power. Unfortunately, that is quite true, and it has the effect of encouraging officials to protect their little bits of turf rather than work

together on vital projects. It is also leads to the inefficiency of building small, local facilities where larger ones could have better quality and be more cost effective. One example is the way our states allocate money for higher education. With our excellent transportation system it seems more reasonable to move the students to the colleges than to try to put new colleges close to potential students. In this and other ways, I feel we could spend less on government and more on our actual goals.

One way to resolve some of the problems I have discussed and make us more competitive over time would be to spread the region's growth more evenly. In many southeastern states the disparities between urban and rural areas are widening. In Georgia, per capita income in non-metro areas was less than three-quarters of that in metropolitan areas in 1987. The Southeast needs more than localized economic oases like Atlanta and Nashville. If we could generalize our expansion, we would be less sensitive to cyclical fluctuations in world and national markets.

We can see how this might work by looking at the national economy in recent years. The nation has achieved its current long economic expansion because we have greater variety in the economy than in the past. Now when one sector weakens, another can rise to fill the gap. Much of the South has not shared in this balanced growth, however, because of overconcentration in single industries, such as energy, agriculture, or labor-intensive products like apparel, which less-developed countries are now able to produce for world markets at lower cost. Thus we need to diversify our economy, but to do so we must return to my starting point. We must make a commitment to giving our labor force of tomorrow a quality education. Only in this way will tomorrow's workers have the flexibility to adapt as our industrial base evolves.

Conclusion

Let me conclude by summarizing. The United States is part of a global economy

where all nations and regions compete. There is no reversing this trend in a technologically advanced world, nor should we want to. As many Eastern block nations have recently learned, isolation from the world would only bring us poverty. By contrast, the intermingling of economies boosts our prospects along with those of other nations. The Southeast needs to make some changes to enlarge its participation in the global economy. We must continue--or even bolster--efforts to improve the skills and flexibility our labor force. We must also work to enhance our environmental amenities and infrastructure. We should open our financial structure to the nation as well as to the world. And, finally, we need to streamline our governments to help accomplish these changes efficiently. I am convinced that we can do these things if we work together. The start of this new decade would be an excellent time to reaffirm our partnership as educators, public servants, and private businesses in pursuit of a globally competitive region in a globally competitive nation.