

THE SOUTHEAST IN A GLOBAL ECONOMY
Remarks by Robert P. Forrestal, President
Federal Reserve Bank of Atlanta
To the Louisiana Chapter of the
French-American Chamber of Commerce
October 10, 1990

Good morning! I am pleased and honored to have this opportunity to talk to the Louisiana Chapter of the French-American Chamber of Commerce. The association between Louisiana and France is one of the richest international relationships in this part of the United States. In the minds of most Americans, the image of Louisiana is shaped by the historical legacy of the early French presence here--from the French Quarter in New Orleans to the colorful "Cajun" culture of Southwest Louisiana. Your purpose is to keep those linkages current by strengthening economic interaction between France and this state. Not only do your efforts hold the possibility of helping individual businesses take their products to new customers, but they also represent a step toward greater roles for Louisiana and France in the evolving global market.

The increasing internationalization of economic activity will be a consistent theme in my remarks this morning. We in the Southeast need to assess our ability to compete in this global economy, and I would like to point out several areas in which we must continue to work to enhance our competitiveness. Before I do that, however, let me give you my outlook for the economic prospects of the United States and the Southeast in the decade ahead.

Outlook for the U.S. Economy

I see growth potential in the United States as moderate in the coming decade

compared to past levels. Whereas we have viewed long-term potential for real gross national product as being around 2 and 1/2 percent per year in much of the post-World War II period, I think we need to shade that expectation closer to 2 percent or even a little less in the 1990s. My main reasons for this view are first, a relative of satiation of consumer demand here; second, the implications of demographic trends already taking effect in our economy; and, third, greater worldwide competition for investment capital. On the other hand, I view the trade sector as a source of support for expansion as greater volumes of U.S. exports flow to foreign consumers.

Before I elaborate on the particulars of my outlook, I should point out that a key economic variable has been thrown into uncertainty by recent events in the Middle East. That, of course, is the price of oil. From our present vantage, it is virtually impossible to foresee where oil prices will finally settle after the Persian Gulf crisis is resolved. Thus forecasts are even more difficult. However, it is clear that what is going on in the Middle East will raise costs for many businesses and dampen output. In the near term, this would reduce potential GNP. We have suffered a significant supply shock which, unfortunately, cannot be offset by monetary policy or other public policies that work by stimulating or restraining demand.

Looking at long-term prospects for U.S. growth, I see other constraints as well. First, a degree of saturation may have taken hold in consumer demand. First-time purchases of homes and automobiles seems to have peaked among the "baby boom" generation--the large generation of children born in the decade after World War II and now passing into middle age. The U.S. housing and auto industries have already felt the effects. This slackening of demand is not entirely negative, however, insofar as it mitigates to some extent the inflationary forces that have

been troubling for some time. As you know, price pressures, as gauged by the consumer price index, had been increasing stubbornly even before the run-up in oil prices. The Fed has been trying to hold inflation in check. While progress seems to come slowly, I believe we would be in worse shape if the central bank had not acted.

Aside from limiting demand here, the demographic shift associated with the aging of the baby boom will have a second effect. That is the shrinking pool of entry-level labor compared to the recent past now that the baby boom has been absorbed into the workforce. Scarcer supplies of labor imply higher costs over most of the coming decade. U.S. industries will need to counter these costs by more investment in labor-saving technology.

Unfortunately, competition for the capital to make those investments is likely to be greater in the coming decade. One source of competition could be the U.S. government's funding needs associated with large fiscal deficits if Congress cannot maintain an effective budget-deficit reduction program. The international economy also provides numerous alternatives for investors, among them emerging opportunities for higher rates of return in Eastern Europe, strong investment demand in Western Europe, and, eventually, perhaps, a resumption of lending in Latin America.

Meanwhile, greater integration of the world's economy should continue to bolster exports for U.S. firms. The outlook for Europe is a bit stronger than for the United States, and this suggests healthy markets abroad for U.S. goods. Farther down the road, I also look for a revival

of the once-important but now stagnant trade relations between the United States and Latin America as those countries continue to get their economic houses in order. I grant that a lengthy period of adjustment will be needed before the U.S.S.R. and the former communist nations of Eastern Europe can provide new markets for U.S. goods. Still, I feel that toward the end of the decade we may be deriving more income from trade with those countries as well. Assuming such developments occur, I believe that exports will probably be a major source of U.S. growth in the coming decade. However, lower consumption, slowing growth in the labor force, and competition for investment funds from domestic and international sources are likely to keep overall growth from being as strong as in the 1970s and 1980s.

Economic Outlook for the Southeastern United States

I believe this outlook for the nation suggests that the southeastern region of the United States has good prospects for renewed economic expansion in the 1990s. The main engine for the economic growth we have enjoyed here over the past two decades has been a sizable influx of individuals and businesses. Many individuals have relocated here during their retirement years to take advantage of the region's milder climate, improved amenities and generally lower cost of living. Others have moved because of employment opportunities. American businesses are decentralizing, particularly their sales and distribution operations. At the same time, the need for greater efficiency has been spurring American businesses in the last several decades to seek southeastern locations because of the region's cost advantages. These include lower wage levels, less burdensome taxes, relatively low land prices, and reduced distribution costs associated with readily accessible transportation networks and enhanced market proximity. Such cost advantages

as well the area's favorable business climate have drawn businesses and people, causing the southeastern economy to grow faster than that of the nation in recent decades.

Like many American businesses, foreign firms have also found it profitable to locate production, distribution, and sales facilities in the Southeast. People in the region have been warmly receptive to the new businesses that have grown up as a result. International financial institutions have spread in the region too. Over a hundred such institutions, including U.S. and foreign firms specializing in international banking, are located in the Southeast.

I must acknowledge that overall growth here slowed appreciably in the late 1980s. The primary reason for this deceleration was the revival of manufacturing in many other parts of the United States that came in response to faster growth in exports starting about 1987. This slowed the in-migration that had been the mainstay of the Southeast's economic expansion previously. Since southeastern industries are not as export-oriented as those in other regions of the country, many people who might have moved to the Southeast decided to stay where they were because opportunities were improving more at home. Thus, migration from other parts of the United States to the Southeast began to slow at the same time that overall population growth among young American adults started to recede. This shift depressed the demand for housing, office buildings, and services relative to what it had been. In the 1988-89 period the Southeast's rate of employment growth fell behind the nation's for the first time in many years.

Aside from the effects of this slowdown in migration, several parts of the region that

concentrate heavily on natural resource extraction and related industries suffered from price reversals in commodities markets during the 1980s. The depressed state of the energy industry, which is particularly important to Louisiana, is only one example of the hard times commodities producers have faced during this period. In the first half of the 1980s agriculture was in very bad shape due to debt as well as drought. Timber, an important product in many rural areas throughout the Southeast, is suffering now that residential construction has slowed even though growing export markets help to some extent. Such industries are always cyclical, but the broadening of international commodities markets in recent years has intensified price volatility and competition for all of them. Since globalization is, I believe, gaining in momentum, areas of the Southeast that depend on these sources of income need to diversify their activities. I am hopeful that your organization will continue to be a catalyst for helping Louisiana move in new directions that will supplement the energy industry's contribution to the state's economy.

In 1990, I am glad to say, the Southeast is once again growing on a par with the nation, and in several states the pace of expansion is faster than nationally. The advantages that prompted in-migration here earlier are still with us--lower costs, excellent transportation networks, a good climate, and a positive attitude toward external business linkages, based on our recognition that such ties can foster healthy growth. I think these qualities will continue to attract people and businesses to the region. Thus my long-term outlook is for the Southeast to outperform the nation, although perhaps by a smaller margin in the 1980s.

Issues in the Southeastern Economy for the 1990s

Summing up the outlook for the decade ahead, it seems likely we will experience moderate growth in the nation and somewhat faster expansion in the Southeast than in the United States on average. However, in order for this region to maintain the kind of economic performance that will keep us ahead in the evolving world economy, those of us who live in, work in, or just care about this region must be completely honest and candid about the challenges we face as well as our strengths. We have now made major strides toward building the factories and offices needed to accommodate the expansion of private business here. Now it is necessary to shift some of our energies in the direction of public programs that can foster future economic development as opposed to growth for its own sake. Three of the major factors we need to assess are the Southeast labor force, our environmental and industrial infrastructure, and our financial structure.

I will begin with the labor force. Many qualities of southern workers are praised by firms from outside the region, including foreign firms, that relocate here. However, most states in the Southeast have relatively poor educational performance compared with the rest of the United States. 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. This weakness can be a liability in attracting the kinds of new industries that will help the region develop into a strong participant in the global market. For one thing, if we want to expand our base of high-tech and service industry companies, we need workers who can effectively operate the kinds of equipment and perform the more complex tasks these firms require. For another, if our school systems do not meet the standards outsiders demand for their

own children's educations, they are less likely to set up shop here.

Several southeastern states have taken steps to improve education. Attempts have also been made to bring teacher salaries closer to national standards. However, southeastern states still tend to fall below the national average in per capita state and local spending for elementary and secondary education. One structural problem associated with this shortfall is the tendency for state governments to overrely on certain revenue sources, as with the severance tax in Louisiana and sales taxes in Florida. Such highly concentrated tax systems are subject to cyclical downturns in the economic activities that support them, and states that employ them need to consider additional sources of funding for crucial state programs like education. Thus, further efforts are 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, business involvement, as well as voluntary efforts, will be needed to combat the handicaps of an incomplete or inadequate education.

A second focus for the region's attention 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.

The base of our financial structure, a third area of concern, is generally strong in much of the region. Commercial banks in the Southeast typically have higher capital ratios than their counterparts in other regions. Nevertheless, our banking laws are in need of reform. States here were among the leaders in developing a regional banking compact five years ago. Yet 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. Instead, they have limited interstate banking to nearby states. 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.

Conclusion

In conclusion, I feel the nation and the Southeast can look forward to continued, if more subdued growth in the 1990s. I believe that the United States, like other participants in the global market, can continue to prosper as the world's economy becomes more integrated. The Southeast needs to make the kinds of changes I have just outlined to improve its competitiveness in a changing world economic environment. However, I believe that the existence of organizations like the French-American Chamber of Commerce attests to the desire of people in

this region to make it a truly world-class place to live and do business. Thus, I am confident that we have the will and the ability to enlarge our participation in the global economy in the decade ahead.