

THE ECONOMIC LANDSCAPE OF THE SOUTHEAST
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Today I have been asked to speak about the economic landscape of the Southeast and to give a picture of the prospects for economic growth in this part of the country. At the outset, I should say that the easy growth that the Southeast became accustomed to in the recent past is over, at least for the time being. There are many reasons for this, which I will explain in a moment. The point I would like to make, however, is that in times of modest growth such as the Southeast has begun to experience, one solution to the problem is to increase productivity. To do so, the region will need to increase its pool of better-educated, highly skilled workers.

As most of the speakers on the agenda today will tell you, hiring an ex-soldier is one sure way to help meet this challenge. However, I also believe that if this region of the nation is to move to a new era of more rapid and sustained growth, it must also focus on educating and training its own current and future workers as well as on attracting the kinds of companies that employ highly skilled workers. The real challenge is to find ways that incorporate returning soldiers in that process.

The Economic Outlook for the Southeast

Now let me briefly discuss the prospects for future expansion in this region. The growth in the Southeast on average should be on a par with U.S. growth for the foreseeable future. The

states of Georgia and Florida may lag behind the other states in the region in 1992 because, following a period of rapid growth, their imbalances are greater. Also, Florida income depends more on interest rates due to the large number of retirees. Therefore, the efforts of the Federal Reserve to aid the economic recovery by lowering interest rates over the past two years have adversely affected those dependent on such income. Tennessee will probably track the rate of growth in the nation quite closely because its previous growth did not generate as many excesses. Those states that historically are slower-growing, such as Alabama and Mississippi, will also reap a benefit from not having had excessive growth in recent years. Business conditions could actually be better than in Georgia and Florida, at least in the near term. Louisiana, which follows its own energy-related cycle, also did not have far to fall and faces similar circumstances.

Going through the recovery and into the expansion, the areas of greatest strength should be residential construction and consumer durables. Simply put, as more houses are built and sold nationwide, more wood that may come from this region is used both to build the houses and to make the furniture that home-buyers purchase. The Southeast also has many of the textile plants that produce the carpets and other materials used for home furnishings. In addition, the low dollar is helping tourism in the region. However, the pace of recovery is slower than in the past. Rapid growth of the recent past means that imbalances are still being worked out. That faster-than-average growth attracted a good deal of real estate speculation. Consequently, there are substantial construction-related imbalances yet to be resolved. In this region, the service sector, likewise fueled by brisk growth in the 1980s, is undergoing the same kind of consolidation that

is occurring nationwide. Thus, the region has many of the same weaknesses as the U.S. economy. This situation is quite different from past recessions, which were barely noticed in the large states like Florida and Georgia.

More fundamentally, however, Southeastern economic development is undergoing a strategic change in direction. Traditionally, the Southeast grew by attracting businesses from the North--for instance, textile manufacturing plants from New England--and, more recently, from overseas--car factories from Japan. This strategy, which worked well, went hand-in-hand with promoting the Southeast as an area that had very low costs, especially labor costs. As most of you know, the result was that an abundance of low-skill, low-pay industries staked out a stronghold in the region. Now, however, such industries are increasingly locating outside of the United States in developing countries, where labor and other costs are cheaper. As these jobs have left the country, it has become obvious that the Southeast can no longer count on such industries as the mainstay for long-term growth.

Another factor that is bringing about change in the outlook of the region is demographics. The largest Southeastern states and cities have enjoyed rapid in-migration in recent decades, in turn propelling a build-up in the construction and service sectors. New residents require new homes, offices, retail establishments, hospitals, schools, and a variety of other services. With slower population growth nationally, fewer people will be moving into the area. Moreover, since a considerable portion of the region's manufacturing sector is construction-oriented, slowing population growth nationally is not auspicious since it means a deceleration in demand

for housing.

A third factor that is muting the performance of the region is its industrial composition. Exports are of increasing importance in the United States and have helped to dampen the current recession. However, exports represent a relatively smaller share of the manufacturing base in the Southeast compared with the rest of the nation. For example, 15 percent of the jobs in the United States are tied into exporting as compared with 12 percent in this region. In addition, the nation is more oriented to high value-added exports, such as electrical and electronic equipment. The Southeast does send abroad a large proportion of its paper and chemical products, but many of these are commodities, for which competition takes place mainly in terms of price, not quality. Since exports have been critical in mitigating the recession nationally, it would appear the Southeast could do better for itself were it to place more emphasis on exporting high value-added goods and services.

You might notice that I did not mention defense cutbacks as a negative long-term factor. Certainly the effects of reduced defense spending are already being felt in some areas, especially Florida, but the impact will not be nearly as great as in California, New England, or certain other states. Still, as we look ahead to the future, a variety of factors indicates slow growth that should mirror, rather than surpass, the nation as the Southeast did in the 1970s and 80s. Longer-term, the region will remain an attractive place to do business compared with other areas like California and New York, where it has become very expensive. As I mentioned, however, competing on cost alone cannot be the principal strategy now that so many developing countries

are joining the mainstream of international trade. In order to solidify its own base for growth, this region must develop new strategies to take the place of doing things the old way.

Four issues that will determine the longer-term future of the Southeast are education, entrepreneurship, diversity in the workforce, and exporting. Education has been the Achilles' heel of the South, because, historically, the region has spent less money on educating its young people. At the same time, we have more money committed to higher education per capita than the rest of the United States, even though it is well known that the return from kindergarten through 12th grade education is higher. This contradiction has led to a situation in which our youngest potential employees do not have the level of training necessary for many high-skill jobs. Entrepreneurship will also become more important to growth as the Southeast makes an important transition from depending on attracting business from outside the region to growing its own businesses. Third, in times of slow growth the ability to call on a diverse workforce made up of men and women of all races and nationalities creates an advantage over those economies that use only part of the available workforce. Finally, I have already mentioned the importance of increasing exports from the Southeast.

How Does the Army Fit into the Picture in the Southeast?

Now that I have outlined the future prospects for growth in the Southeast, let me touch briefly on how I see the Army--or any branch of the military--fitting into the picture. In each of the four areas that should determine how the region will do, the military seems to have been training its people well. On the topic of education, the CED has put forth the idea that as a

nation we must concentrate on achieving a higher-skilled workforce through the life-cycle approach. This approach calls for people not only to learn how to do certain tasks but also to learn how to learn. In this way they can understand how to handle new jobs and continuously develop new skills. With the right kind of learning, Americans should then become productive workers at all stages of their lives, even into their 70s.

In this regard, the Army seems to have been placing an emphasis on education and training that teaches soldiers not only basic tasks like how to shoot a rifle but also the more complex skills needed to understand computer programs and how to write them. Educated ex-soldiers who know how to keep on learning new skills could benefit the regional economy in two ways. First, they could be a valuable asset to businesses that are looking for highly skilled workers who know how to better themselves in an ongoing way through training. Second, they could also contribute to the educational performance of others in the region, by teaching in the region's schools--elementary, high school, and perhaps especially in technical schools. As a nation, we have placed many of our resources into our colleges and junior colleges with the idea that every qualified person deserves to go to college. On the other hand, we have not done as good a job as, say, Germany has in vocational training. Perhaps ex-military people with specialized skills could invigorate the teaching ranks in our technical schools.

As I mentioned earlier, the Southeast is moving from its traditional dependence on attracting businesses into the region to growing its own businesses. For this change, we will need many entrepreneurs who will take the risk of seeing their own personal vision to fruition.

I am well aware that many people do not think of soldiers as being particularly entrepreneurial. After all, the stereotype of the military is that of a top-down organization that does not allow for any creative thinking by those in the field. Although I cannot speak from first-hand experience, I am told that over the past 15 years, the Army has been pushing decision-making farther down in the ranks, in much the same way that businesses have been revamping the ways they manage their employees. For those soldiers who have learned to think for themselves, make on-the-spot decisions, and take risks, there may be a fruitful role to play in the region's entrepreneurial future.

I believe diversity in the workforce has been a strong suit for this part of the nation and will only become more important as the demographics catch up with us after the generation of baby boomers. Obviously, as the labor pool grows more slowly, we must be able to put all kinds of people to work. In the Army, it is easy to see such a diverse workforce on the job, with minorities currently making up more than 35 percent of personnel. The experience of ex-Army personnel in a diverse workforce should prepare them well--as employees and managers--for an increasingly diverse civilian workforce.

My comments about how ex-soldiers could help the Southeast build its exports rest on a belief that anyone who has traveled the world--or been stationed overseas--is more likely to have an understanding of how people from different nations live. Such knowledge is invaluable when it comes to marketing products outside of the United States. It seems to me that if ex-soldiers who have been stationed in Europe or the Far East, for example, bring a global view back home

with them, they may be able to help Southeastern companies to broaden their export markets.

Conclusion

In conclusion, the economic landscape of the Southeast is full of peaks and valleys. The region is blessed with natural resources and a mild climate. The infrastructure to support expansion has been built or exists naturally in ports and rivers. However, the Southeast must compete more effectively on a global scale by utilizing our transport infrastructure and putting a stronger focus on producing high value-added goods. To do so, though, the region also needs to be able to supply its own skilled workforce that can create the high value-added goods, and it must be able to grow its own businesses, rather than relying so much on importing them from the North or from overseas. Only in these ways will the Southeast create a stable base for long-term growth.

Now that the time for easy growth is over and the traditional appeal of low costs is less effective, the Southeast must develop new strategies for economic growth. One quick fix is for companies to hire ex-soldiers and other highly skilled employees from outside of the area. From a policymaker's perspective, though, it would be wiser still for this region to build from within through education and training. Ex-military personnel can also help in this regard, by providing the training for young people as they move up through high school and into the first productive time of their lives. This challenge should not be too daunting for a region that has been able to overcome great adversity in the past, and I believe the military can serve a valuable purpose in helping the Southeast to rise to greater heights.