Opening Statement
Robert P. Forrestal
President and Chief Executive Officer
Federal Reserve Bank of Atlanta
before the
Senate Committee on
Banking, Housing, and Urban Affairs
March 10, 1993

I am pleased to appear before this committee today to discuss economic conditions in the Sixth Federal Reserve District and to provide my views on appropriate monetary policy. My comments will focus on three subjects. First, I will discuss 1993 growth prospects for the Southeast, which on average are fairly good. Second, I would like to highlight some longer-term problems facing the region. For many decades, the states that make up this region were among the most impoverished in the nation. Unfortunately, their rapid overall growth of recent years has not raised the living standards of many of their people above the poverty level. As a result, I am convinced of the vital need to achieve sustainable growth on a broader basis. Finally, from this perspective, I shall express my views on monetary policy.

Southeastern Economic Conditions. Let me begin with current economic conditions in the District, which encompasses Georgia, Florida, Alabama, and parts of Tennessee, Mississippi, and Louisiana. In 1993 growth in the Southeast should outpace the nation by a small margin. The expected strength in home-building and consumer purchases of durable goods in the nation will boost some of the major industries in the region--lumber, furniture, home appliances, carpets, home furnishings, and automobiles. Our monthly survey of manufacturers in the District indicates that most expect production and shipments to increase over the next six months. Construction of single-family homes will do fairly well, and our decline in apartment and office construction may at least hit bottom. Defense cuts will affect the Southeast but not as much as the nation as a whole. The region is certainly not immune to the downsizing that is costing so many jobs in banking, retailing, communications, manufacturing, and transportation firms, but on balance prospects for the Southeast are brighter than in several years. In addition, upward pressures on wages and prices are virtually nonexistent in the District at this time.

I am fairly pleased with this overall outlook for the region, but averages do not tell the whole story, especially in an area like the Southeast, where incomes range so widely. Georgia, Florida, and Tennessee--the three largest states--will probably perform the best, benefitting from the forces I have just described and also from special, albeit temporary, local factors like rebuilding from Hurricane Andrew and the startup of some Olympics projects. In Alabama, however, the pace of business activity is likely to decelerate as a recent buildup in state and local government jobs tapers. Mississippi faces the possibility of sluggish performance in response to declines in defense spending and apparel production, and Louisiana could well see jobs and incomes shrink as a result of lower energy prices and defense cutbacks.

Longer-Term Problems. Thus you can see that there are major differences in the prospects for the states of the Sixth District, and these differences bring me to my second point, which is about the longer-term challenges of growth. The basic problem is, how can all areas and segments of the southeastern population share in the robust growth that has been enjoyed by some?

Cities in Florida as well as Atlanta and Nashville have been attracting regional offices of national and international firms as well as many new, higher paying jobs in industries like business services, electronics, and transportation equipment production. In contrast, small towns and rural areas have been losing jobs in traditional industries like apparel and textiles and are unable to generate new ones, largely because of state and local policies that short-change their people on education.

The disparities, however, are not just geographic; they affect entire segments of the population. The proportion of children below the poverty line exceeds the national average in every District state and reaches about 30 percent in Mississippi. Personal income, on a per capita basis, is below the national average in all District states except Florida. Of the four states in the nation with the lowest high school graduation rates, three are in the Southeast--Florida, Georgia, and Louisiana. I am deeply troubled by these conditions, which reflect the back-breaking hardships too many people in the Southeast endure.

From my perspective of more than 20 years in the region, the most important solution to this problem involves investment. The growth we have experienced has been fed by a willingness of people to commit themselves or their resources to the region, by moving to the Southeast or by investing in new buildings, factories, and the like. In both the region and the nation we simply need a greater commitment to investing in physical and human capital to raise potential and actual growth. This kind of commitment cannot survive in an economy subject to wide swings in output, employment, and prices.

Monetary Policy. In this regard, the conduct of monetary policy is critical to the growth challenge faced by the Southeast and the rest of the nation. Let me turn, therefore, to my third topic. In my opinion, the most important role of monetary policy is to help foster long-term sustainable economic growth. To do so, the Fed must keep its focus on the long term, establishing and maintaining a stable environment. By this I mean one in which the price level is not highly volatile and inflation is not a factor. And one in which booms and busts in jobs and output are avoided.

In embracing this long-term policy orientation I am not saying that monetary policy should ignore the short run. When cyclical imbalances develop, monetary policy has an important role to play by leaning against the tendency of the economy to overshoot at the peaks and low points of business cycles.

The problems arise in trying to achieve this ideal world of stable prices and steady growth in jobs and income. At the Fed we must grapple with considerable uncertainty as part of this process. For example, statistical data are essentially backward looking. Economic theories sometimes conflict. Changes in credit conditions take a long time to work their way into the economy. In addition, we have to bring to bear on our decisions the preferences of the American public. Indeed, one of our most important tasks is to use our information resources to assess the consequences of a policy change, in light of what society wants.

As a District Bank president, I bring the views and experiences of people in the Southeast, along with my own understanding of economic conditions, to the consensus-building process that marks decisions by the FOMC. I meet regularly with a variety of business people, bankers, union leaders, farmers, educators, and others around the Sixth District, in small groups that encourage candid interchanges. These people share with me, in confidence, current and often sensitive information about their businesses, their outlooks for their local economies, changes in the size of their work forces, and so on. For example, it was from such contacts that

I first learned of rising price pressures in the late 1980s and later of the credit crunch and its serious effects on local banks and businesses. People also share their views on what should be done about these conditions.

This kind of anecdotal information--from the trenches, so to speak--enables me to communicate to my Washington-based colleagues very current economic developments and to do so not just statistically but in human terms as well.

Right now I think monetary policy is on target. The economic situation is by no means ideal, given the large number of unemployed. However, we must not discount the important foundation for growth that has been laid by the Fed. The current degree of price stability we have achieved positions the United States to reap enormous and real, not inflationary, gains in output and incomes. This foundation, coupled with an agenda to address the issue of large fiscal deficits, augurs well for the United States. A successful resolution of this issue can ensure that we achieve conditions favorable to the kind of long-term investment that I believe is necessary to achieve lasting growth, both nationally and in the Southeast. Sound fiscal policy and monetary policy with a focus on long-term growth will promote the three things that everyone wants: the creation of permanent, highly productive jobs; a noninflationary environment; and the improvement in living standards that accompany the first two.