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FARE IN THE NEXT DECADE?

An address before the
Annual Convention of the
Southern Newspaper Publishers Association
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Today I am going to discuss with you some views on the way the South's economy will fare in the next decade. In considering this extremely intriguing question, I am going to talk against the background of the work which I have to do in connection with my official position with the Federal Reserve Bank of Atlanta.

I have to devote a great part of my time to wrestling with the hard problem of trying to help decide upon the appropriate monetary policies that will contribute to achieving for the United States sustainable economic growth, some stability in prices, and a reasonable long-run balance of payments. This is part of my responsibility because the decision-making process of the Federal Reserve System provides for regional participation in policy formation. One of its most important aspects is the regular attendance by the presidents of the twelve Federal Reserve Banks at the meetings of the Federal Open Market Committee. Along with the presidents of the eleven other Federal Reserve Banks, I am expected to approach policy problems from the point of view of the national interest. However, as part of that task the president of each Bank is expected to be especially well acquainted with the impact of Federal Reserve policy on his own District and with developments in his own area that seem relevant to national policy considerations.

I am going to talk in terms of this background rather than providing you with any neat package of statistics. I am not, as you know, an expert regional scientist, demographer, nor economic forecaster. Therefore, it seems to me that I will do best by sharing with you some of the impressions I have gained during the course of my work that appear to me to have a bearing upon the question of the South's economic future.

This experience of playing the dual role of having to consider the impact of monetary and credit policies on the nation's economy and how they fit in with the developments in the Southern region served by the Federal Reserve Bank of Atlanta--which roughly covers the states of Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee--has led me to reach two general but important conclusions. First, I have been impressed by how economic and financial developments in the South more often than not parallel those of other parts of the country. In the second place, I am becoming more and more impressed about how important the human factor is in the way the economy behaves.

During the rest of the time allotted to me I am going to discuss some of the reasons for this close interrelationship between the economy of the South and the rest of the country. Then I shall talk a little bit about what seems to be the pattern of economic developments for the United States in the future. I shall then try to point out how the South's economy in the next decade or so will fit into this picture.

First, let us turn to the close resemblance between the way the Southern and the national economies behave.

A few years ago when I began to report on economic and financial developments in the South at the meetings I attended at the Board of Governors in Washington, I had rather expected that I would be provided by our economic

staff with figures that would show striking differences between the behavior of the economy in that part of the South served by my Bank and that of the rest of the country. For example, I was hopeful that I might startle the other members of the Committee by stating that, despite a sharp decline in employment in the country as a whole, the South's was expanding strongly. Or that bank loans in the South were declining sharply while those in the rest of the country were rising. I soon learned, however, that I have very few opportunities to make such dramatic statements. I found that when employment was rising in the Sixth Federal Reserve District it was also rising elsewhere and that if banks were making fewer loans here banks in other parts of the country were also cutting down on their lending.

There were some differences, of course, but they were largely matters of degree rather than direction. During the years 1967-69, for example, when nonfarm employment in the nation was rising steadily, I was happy to be able to report that employment in the Sixth District was rising at a slightly greater rate. But the differences were relatively minor. And such is the current situation. Manufacturing employment is down from last year in the nation, and so it is in the Sixth District although I am happy to observe that the decline is a little less in our area.

I do not mean to convey the idea that there are no economic developments in specific areas of the South that run contrary to national developments. There are many of them at any time. Currently, for instance, because of the importance of the space program to certain areas in our Federal Reserve District these areas are being depressed more than other parts of the country. But here again the impact has come from national and not strictly Southern developments.

A Different South

Forty years ago--that is, in 1930--the South was without doubt an extremely different economic area. Its per capita personal income was a little less than half of what it was for the country as a whole. Consequently, at one time it may have been appropriate, when considering economic developments in the South, to concentrate attention on Southern developments. When I am speaking about the South, I am talking specifically about the Southeast as defined by the U. S. Department of Commerce. It is an area roughly the same as the area from which the membership of this association is drawn. It does not include Oklahoma and Texas, which the Department of Commerce classifies as belonging to the Southwest. Nevertheless, the twelve-state Commerce region of the Southeast is fairly representative enough of your entire membership area.

Things have changed, as all of us know. Those of us who have witnessed these changes day by day and year by year may not realize sometimes how great they have been. Last year per capita income in the Southeast was just a little less than 80 percent of the national average. In Texas and Oklahoma, the percentage figures were 91 and 80 percent, respectively.

To change, of course, from a per capita income position just about half as great as the nation's to one with per capita income about four-fifths of the national average has required a greater rate of economic growth in the South than elsewhere. During the last four decades the Southeast has consistently been classified as a fast-growing region in terms of per capita income.

One of the reasons for the rapid growth was that in the economic setting of the period the South's water, sunshine, and an ample labor supply gave the South a comparative advantage in the production of certain goods for export

to other regions. These factors lay behind the development of the pulp and paper industry, chemicals, apparel, textiles, and electrical machinery manufacturing industries.

In the process the structure of the South's economy underwent substantial changes. As the South shifted from agriculture as a chief source of income to manufacturing and the provision of services, more people moved to the cities. The South became more urban. A growing income made it possible to improve the ability of the South to educate its children. The median school years completed has come closer to equality to the rest of the United States in the last twenty years.

The Potential for National Growth

Because the South's economy has become so much more like the nation's, the major forces shaping the South's economic future are undoubtedly going to be very similar to those shaping the nation's. Indeed, this is what happened in the '60s. About 88 percent of the Southeast's income growth in the last decade can be linked to national income growth, according to a U. S. Department of Commerce study. Not to recognize the importance of national economic developments to the South's future economy is to be the slave of defunct ideas about the South.

One thing evident about the nation's future is that we are going to have more people. The U. S. Bureau of the Census projects that the nation's population will increase by over one-fifth to between 240 and 245 million by 1985. Living will be more congested. By 1985 three-fourths of our national population will live in metropolitan areas, whereas today only two-thirds is concentrated in such areas. It will be a young population, with one-third of the expected increase coming in the 25-to-34 age group.

Of these population trends we can be reasonably certain. However, what does this population growth imply for economic growth? A study made by the U. S. Bureau of the Census suggests that the average family income could rise from \$8,600 today to \$15,000 in 1985 measured in dollars of constant purchasing power. According to this study, growth in the gross national product could be over half again its present level measured in real terms.

These projections of a much more affluent society, of course, are based upon certain assumptions, chief of which is that growth will continue much as in the past. But if our past experience is any guide, we know that this sort of economic growth will require large amounts of capital, a more productive labor force, good management of natural resources, and additions to what has been termed social overhead capital, including the transportation system, communications, education, law enforcement, provision for health, and all those forces that are required for an advancing and smoothly functioning modern economy.

Over the long run, the capital investment required for economic growth must come from saving in one form or another. Consumption must be less than total production if part of the resources are to be devoted to creating the machines, buildings, roads, and social overhead capital required for future production. In a free society this saving depends largely upon the decisions made by individuals.

One of the influences that might make the consumer more willing to save would be the assurance that his dollars saved will be worth as much or more in the future as they now are. In the past few years this has not been the case, since with the rising price level the purchasing power of accumulated savings has steadily declined. This is a problem we are facing right now.

And if I sometimes seem slightly old-fashioned in harping on the need to bring inflation under control, it is partly because I see the great need for the accumulation of capital, which under traditional American methods has been dependent upon the savings of individuals and businesses.

The economic growth that has been projected as being possible can occur only by the continued increase in the productivity of our labor force. There is, of course, the need for continuing quality education. Further productivity can come by assuring that each worker is given the opportunity of acquiring the skill and experience enabling him to utilize his full capabilities regardless of his original background.

If we are going to have the kind of affluent society that will double family income by 1985, we shall need to spend more for education, better transportation, communications, law enforcement, and the provision of health services. It is clear that provision for many of these needs must come from governmental action. These are matters that may be touched upon by the other speakers on the panel. They will no doubt point out the increasing needs for what we have termed social overhead capital resulting from the greater congestion associated with the increase in population and greater urbanization. They may also point out that, if some of these problems are to be handled, there will need to be a great deal of effective planning.

All this suggests that human decisions will largely govern the kind of economic growth this country is going to have in the next decade or so. We all realize more and more the fragile character of our sophisticated economic machine. We know our economic system cannot create economic growth should this fragile society in which people can live together and co-operate in the economic process of producing income be destroyed.

If we were to meet ten years from now and were to look back at what had happened in the 1970s and were to conclude that the kind of economic growth set out as a possibility had been achieved, I think that we should have to be able to describe the preceding ten years as something like the following: The 1970s was the decade of an open society. Simultaneously with the production of wealth, the United States maintained its qualities of uninhibited travel and closed its racial, poverty, and generation gaps. Scattered acts of disruption ceased, and public transportation improved, along with the quality of the air and water. The campuses were free from unrest, and crime rates and narcotics use diminished as an atmosphere of mutual trust and respect for law and the rights of others evolved.

How the South Fits In

At this point one is tempted to end the discussion by saying that, since the South's economy is so closely tied to the nation's, it will continue to share the national economic fortunes in the future as it has in the past. Thus, it would be easy to conclude that, if personal income throughout the country is going to be half again as large in 1985 in real terms as it is now, personal income in the South is going to increase even more since this has been the pattern of the past.

Based on such reasoning, by 1985 per capita income in the Southeast could reach \$5,150 in dollars of 1969 purchasing power compared with \$2,916 last year. I have emphasized the word "could" since this estimate is based upon two major assumptions. We assume that the problems we have mentioned will be solved sufficiently so that the projected national economic growth will take place. In addition, we assume that the South's economy, measured in

terms of personal income, will continue to expand at a much more rapid rate than the nation's as it did in the past decade.

We have already touched upon the first assumption. Now, let us turn for a few minutes to the second: The South's economy will continue to grow at the greater-than-national rate that was characteristic of the '60s.

In the past, the South's water, sunshine, and abundant labor placed it in a position of competitive advantage to produce goods and services the nation demanded.

But all of us also have noticed lately that undesirable things have been happening to our water and that we are having more and more trouble seeing the sun through man-made clouds of pollution.

We can no longer assume that we can attract a major industry to our region on the basis that it can locate on one of our rivers, draw pure water upstream, and dump its industrial wastes below. For one thing, fewer and fewer such plant sites are available. In addition, the requirements we shall inevitably impose to control pollution are going to be costly. We can apply the same sort of reasoning to our other national resources.

Will the South continue to have a competitive advantage based on an abundant labor supply? In the past we could almost always assure a new industry--wherever it might locate--that an adequate labor supply would be available. This was so because, for one thing, we could count on drawing on what seemed an inexhaustible supply of workers from our rural areas where the reduced need for farm labor was freeing them from other work.

In the process of shifting from farm work to nonfarm work, the productivity of Southern labor increased enormously. We are getting closer to the time, however, when this source of a labor supply may dry up. Then the task of

raising worker productivity will have to be concentrated on improving the productivity of nonfarm workers rather than shifting from farm to nonfarm jobs. This may prove to be an extremely difficult task. The South's greatest potential lies in improving the quality of its labor force, and that requires even greater educational and training efforts.

We are just now facing some of the kinds of problems of urban congestion that have plagued other areas in the past. The U. S. Bureau of the Census is not yet able to provide us with firm estimates of the future size of the Southeast's population based upon an extension of the latest census figures. However, it seems reasonable and consistent with the projections that have been released for the United States that by 1985 there will be between 50 and 55 million persons living in the Southeast compared with about 43 million in 1970.

Unless trends change, most of these additional people will be found in Southern cities. Of the 1,563 counties losing population in the United States in the decade of the 1960s, over a third were in the Southeast. On the other hand, there were ten metropolitan areas in the Southeast with populations of over 500,000 in 1970. Population had grown in these areas since 1960 by 25 percent, whereas for the entire Southeast the increase was 11 percent. The combined growth of the metropolitan areas of Dallas and Houston was 38 percent.

Yet, although 12 of the 64 metropolitan areas in the United States with over 500,000 persons are found in the Southeast and Texas, they have not yet reached the size that seems to create almost unmanageable social and economic problems. None is among the 12 metropolitan areas in the United States with

over 2 million inhabitants, although Houston closely approaches that mark. Only five of them are over 1 million.

It seems to me that the stage in which we find ourselves in respect to urban growth is extremely fortunate. Urban growth may be inevitable in the South, but we have time before urbanization develops further to adopt policies and practices of a preventative nature rather than having to concentrate solely on remedial measures to deal with the accumulated problems of the past.

One suggestion of dealing with the problems of urbanization is to encourage the development of what are called "alternative growth centers" rather than concentrating on the major metropolitan areas. These growth centers are described as middle-sized communities of between 25 and 50 thousand which are growing or have potential for self-sustained growth. These areas are generally surrounded by areas of declining population and are outside the major population corridors. More research into the reasons these areas grow should be encouraged.

How we handle the problems associated with urban growth in the South depends upon human decisions. Orderly growth of our urban centers is not going to occur unless persons with influence recognize this growing problem, unless they understand the need for forward planning at the local, state, and regional level, unless they realize that growing urbanization is going to create needs for more public services such as transportation systems, educational facilities, hospitals, recreational areas, cultural centers, and others. They must be able to convince others as well as themselves so that thought will be followed by action. If these human decisions are not made in advance through co-ordinated planning, we may end up with a hopeless tangle of bureaucratic organizations. Such organizations will be concentrating solely on

remedial means and will be slow to act or, if they do act, encroach into areas better handled by the private sector.

That there are people in the South who are willing to grapple with urban problems, who can make decisions, and who can put them into effect seems to be supported by an article recently appearing in Business Week. The article related the thinking of a relocation consultant who had a part in the decision of the Shell Oil Company to move its headquarters from New York City to another area. He related that the choice finally narrowed down to four cities. He described these cities as follows: "They are 'cities of the future' in that they can look beyond their present problems--which can be solved economically--to plan for the future." As you may know, these four cities were all in the South, the area from which this association draws its membership. We are told the choice was difficult, with Houston finally being chosen. But we are also told that Dallas, Atlanta, and Tulsa were very close.

As I look back over what I have said today, it occurs to me that I may have given some of you the impression that the future has nothing but problems. You may be disappointed that I have not painted with a broad brush a picture of a smooth and uninterrupted economic expansion for the South.

I do not apologize for pointing out some of the problems that need to be solved if the South's economic progress is to continue. It is by meeting and solving problems that we progress and reap the rewards. Our rather spectacular economic growth in the past resulted from recognizing one set of problems and then taking steps to solve them. By directing our attention to problems of a little different sort in the future, we may be able to help the South continue to set as good a record of economic growth in the future.