

ALABAMA'S ROLE IN THE ECONOMY OF THE SOUTHEAST

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Graduate School of Business
The University of Alabama
and

Members of the Alabama State Legislature
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by

Monroe Kimbrel, President
Federal Reserve Bank of Atlanta

Prof Moore
Dr Drewry
** Dean Garner*

Birth
Comments
Howard
Em Bradley

I should like to discuss with you
Today I ~~am going to talk to you about~~ both the recent and the probable future economic growth of Alabama. To do this, we must weigh the economic facts and figures of Alabama against those of her neighboring southern states and against those of the nation.

First, let us examine the progress of the South in recent years. When I speak of the South, I am talking specifically about the Southeast as defined by the U. S. Department of Commerce. This is the twelve-state area, which in addition to Alabama, includes Virginia and West Virginia, the Carolinas, Georgia, Florida, Mississippi, Louisiana, Arkansas, Kentucky, and Tennessee. *Fed of Atlanta - 6 other states*

Forty years ago--that is, in 1930--the South, undoubtedly, was an extremely different economic area. Its per capita personal income was a little less than 50 percent of what it was for the country as a whole. Things have changed. Last year, per capita income in the Southeast was almost 80 percent of the national average.

Those of us who have witnessed these changes day by day and year by year may not realize sometimes how great they have been. To change from a per capita income position that is approximately half as large as the nation's to a position where per capita income is 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, in terms of per capita income, has consistently been classified as a fast-growing region.

One of the reasons for this 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 contributed to 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 Southeast shifted from agriculture as a chief source of income to manufacturing and the provision of services, more people moved to cities. The South became more urban. A growing income made it possible to improve the South's ability to educate its children. In the last twenty years, the median number of school years completed came closer to equaling that of the rest of the nation.

During the last decade, several other factors have had economic importance.

- (1) For the first time since the 1870's, the 1960's showed more people moving into the South than out of it.
- (2) The metropolitan population of the South increased, on the average, by ~~20 percent during the 1960's~~, twice the rate of the North.
- (3) The proportion of people living in poverty in the South declined from 35 percent in 1959 to 18 percent in 1969.

In a nutshell, the South in the Sixties became more like the rest of the nation by growing at a faster-than-national rate in a period when the nation witnessed an unprecedented, sustained, economic boom.

Alabama's Recent Economic Growth

I do not have to tell you that Alabama is in the heart of the South. ^{then} What ^{is} the recent economic record for Alabama?

If I were to give the state of Alabama a report card on its recent economic progress, ^{regretfully} the majority of the grades would not be "A's" and "B's." While Alabama has made progress in some areas, relative to her recent past and relative to the United States as a whole, she has lagged behind the growth of the South. And although I have just sketched for you the shining economic growth record of the South, it must be remembered that the South ^{itself} is still behind the national average and must continue to grow at a significantly faster rate to bring itself up to the national average.

^{Suppose we} ~~Let us~~ examine some specific economic facts about Alabama.

In the 1950's, people left the farms of Alabama ~~as evidenced by farm employment figures~~ at a much faster rate than in the South or in the nation as a whole. During the 1960's, they left the farms at the same rate as the South, ~~or the nation. Farm employment in Alabama declined 35 percent in the Sixties.~~

This movement out of the agricultural sector was mirrored by slight gains in manufacturing employment during the Fifties and by much larger gains in the Sixties. For Alabama, and for the South as a whole, manufacturing employment gains were approximately twice the national average.

The slight gains in manufacturing employment in the Fifties were somewhat offset by a gain in construction employment, at double the national average and a gain well above the South's gain for the same period. On the other hand, the increase in expenditures for new plant space and equipment in Alabama during ~~the~~ 1960 to 1966 ~~period~~, while 10 percent higher than the national average, was only two-thirds that of

the South's increase. Not surprisingly, construction employment in the Sixties, while outpacing the U. S. gains during that period, fell well below the gains posted by the South.

When we look at financial activity, we find a similar pattern emerging. Measuring deposits of all banks, we note that Alabama's gains in the 1950's and 1960's were slightly less than gains in the South but more than gains in the nation. In the Sixties, we also find in the area of bank loans a gain posted which is greater than the national average but less than the gains by the South.

A financial statistic about Alabama that is disquieting, however, is what is called "bank debits," which are simply charges to checking accounts, or more simply, the dollar value of checks written. Its chief value is that it is thought to be indicative of total spending. In the 1950's, Alabama's increase in this area slightly led the nation's and the South's increase by about 10 percent. In the Sixties, however, Alabama's increase was only two-thirds of the South's increase and less than one-half of the nation's increase. Economists in the area of economic development would frown when looking at this statistic because it most likely indicates a slower rate of growth of economic activity.

Two other areas we might look at are per capita income and population growth. In the Fifties, Alabama's increase in per capita income made great strides: it rose at twice the national rate of increase and at a rate almost 50 percent greater than the South. However, in the Sixties Alabama slipped behind the average increase of the South as a whole but stayed slightly ahead of the nation's rate of increase. An increase, no matter how small, is certainly commendable, but when we compare Alabama's per capita income in 1969 with the South's and the nation's, we find that it is only 70 percent of the national average and 88 percent of the southern average.

Another economic area we might examine is population growth. During the 1960's, population in the U. S. grew more than 13 percent. In the South, great gains took place. As I mentioned earlier, for the first time since the 1870's, more people, during the last decade, moved into the South than moved out of it.

Population in the typical southern state in the Sixties grew at a higher rate than 10 percent. Georgia grew at 16 percent; Louisiana, at 12 percent; and Tennessee, at 10 percent. Alabama's increase was only a little more than 5 percent. Since this fact surprised me, I immediately had one of the Bank's economists investigate the reason for Alabama's low rate of population increase. Although all the latest Census figures have not yet been tabulated, a population expert in the field gave him a one-word reply, "Outmigration."

I must stress that population growth in itself is not an end. However, given the net immigration to the South in the past decade, outmigration may be a point for concern. This is particularly true if it results in a scarcity of labor needed for development. Furthermore, less population means less representation in our nation's capital.

In two areas during the 1960's, Alabama has shown great strides--namely, manufacturing and education. *There are no more commendable areas for development.* Alabama's increase in value added by manufacture during this period equaled that of the South's large increase--a rate exceeding the national average. Alabama also lowered the pupil-teacher ratio in its schools from ^{Nearly 30} ~~29.9~~ students per teacher in 1960 to ^{about 24} ~~24.1~~ in 1969, a figure now in line with the southern and national average.

Let us, then, sum up Alabama's recent economic progress. Positive increases have taken place in education and manufacturing, and in a few other instances the increases in Alabama have been relatively faster than in the nation. However, in terms

of income and in some areas of finance, Alabama's growth has been below the average growth rate in the South. And we must remember, before we pat ourselves on the back for the latter, that the South, to draw even with the nation, will have to continue to grow for a good period of time at a rate faster than the nation's.

What is the Future of the Southern Economy?

I recently had the opportunity to study and evaluate the prospects for Southern economic growth in the next decade. During the course of this investigation, I was struck by how much, in the recent past, the southern economy has become like the national economy. The South has shared in the economic expansions and also in the recessions. Economically speaking, in the last decade, it has grown at a more rapid pace than the nation as a whole. Current projections, based largely on past statistical trends, project this faster-than-average growth to continue. What are the prospects for the nation's economic growth? The ~~U. S.~~ Bureau of the Census suggests that the average U. S. family income could rise from \$8,600 today to \$15,000 in 1985, measured in dollars of constant purchasing power. It would certainly be tempting to say, that the South would automatically share in such growth and even, perhaps, continue to maintain an economic growth rate greater than the national average.

However, these prospects for economic growth must be evaluated in light of the existing economic facts and institutions which have prevailed and are likely to prevail. What assumptions can we make in these areas?

As I said at the outset, the South's water, sunshine, and abundant labor have placed it in a position of competitive advantage to produce goods and services the nation demanded. Can we be sure these advantages will hold for the future as they have in the past? 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 natural resources.

100 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 partly so because we could count on drawing on what seemed to be 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 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. 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 ~~million~~ and 55 million persons living in the South, compared with about 43 million in 1970.

If present trends are any indication, most of these additional people will be found in southern cities. Many rural counties lost population to the urban counties in the 1960's. In the ten Southeast metropolitan areas with populations over 500,000, the population increase averaged 25 percent, while the region as a whole grew by 13 percent.

Although 10 of the 64 metropolitan areas in the United States with over 500,000 persons are found in the Southeast, they have not yet reached the size that seems to create almost unmanageable social and economic problems. None are among the 12 metropolitan areas in the United States with over 2 million inhabitants.

It seems to me that the stage in which we find ourselves in respect to urban growth is extremely fortunate. Furthermore, urban growth may be inevitable in the South, but before we become too overcrowded, we still have time to adopt policies and practices of a preventative nature. We do not have to concentrate solely on remedial measures to deal with the accumulated problems of the past.

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, and unless they realize that growing urbanization is going to create needs for more public services such as transportation systems, educational facilities, hospitals, recreational areas, and cultural centers. They must be able to convince others as well as themselves in order that thought will be followed by action. If these human decisions are not made in

advance through coordinated 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.

Where Does Alabama Fit In?

Given what I have mentioned to you on the future of the South, and assuming a continuation of the wise human decisions of people of the South to successfully deal with problems, the region is in a favorable position to continue on a growth trend in the 1970's. We might recount among its assets the main fact that it is already rapidly growing, for the most part, in an orderly fashion, with rising educational levels, and still manageable size cities.

What about Alabama? Will it share in this growth? It can, but there is no guarantee.

As I mentioned before, there is ample evidence that Alabama is lagging in economic growth, both relative to the South and to the nation. In absolute terms, it stands low on the economic ladder. It ranks well below the nation in per capita income, and a larger-than-average percentage of its citizens are living in poverty.

It appears to me, that Alabama, like many other states, has a two-fold program that it must tackle simultaneously. First, it will not be immune to the need for coordinated regional, state, county, and local economic planning, which is becoming more evident in the South and in the nation. At the same time, it will have to take positive steps to increase economic activity within its boundaries. There is one inescapable fact of economic development. Economic growth tends to feed on itself. Fast growing economic regions have little trouble in attracting outside capital and

talent. We have seen recently evidence that Alabama is losing some of its most valuable resources, labor, through outmigration. There is also evidence that its growth of financial capital is lagging behind the rest of the South.

on the plus side, Alabama is blessed with rich natural resources. It is one of the largest states east of the Mississippi. Its population density, one of the lowest in the South, and in the East for that matter, would seem to indicate attractive land prices for firms wishing to relocate. It possesses the same mild climate of the South, and *central excellent.* its location is almost as central to the South as my home state of Georgia, which ~~has shown a thriving economic growth during the last twenty years.~~ Alabama's cities are still of manageable size and it possesses a deep water port *which can become increasingly important.*

What then is the problem? It is not a simple one, but one which does not seem unsolvable, if correctly diagnosed.

At this point, I will close with these recommendations.

Alabama, in order to share in the projected southern and national economic expansion of the coming decade, must thoroughly study and assess its economic potential. It should carry out studies by a coordinated effort of state and local political, business, and civic leaders. It should evaluate the economic data and the image of Alabama as a place to live, work, and invest.

Where deficiencies are found, it would be well to admit they exist and take steps to correct them. If pollution is a problem in a major city, admit it and then do something about it. By using this approach, a state with the inherent economic advantages of Alabama could only serve to improve its image to outside talent and investors.

Let me emphasize, however, that such progress will not be made unless the citizens of Alabama perform the required organizational efforts to assess the state's

economic prospects. Moreover, all the studies in the world will be of no value unless plans and money are available to implement them.

There will be many states competing for outside capital in the Seventies. Alabama's prospects for economic growth would be greatly enhanced by success in this area. Her natural resources, plus a concerted effort by her citizens to project Alabama as an economically, socially, and environmentally progressive state, could reap great economic rewards in the next decade.