

THE PACE OF ECONOMIC PROGRESS; THE U. S., THE SOUTHEAST AND ALABAMA

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by

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Today I am going to touch on a number of economic matters and hope that in my wanderings, I do not sound like too much of a generalist. However, I would like to detail for you today recent economic progress of the nation, the South, and Alabama and briefly speculate on the future. I know this type of thing has its pitfalls, but nonetheless, let me try.

The National Economy

First, let us take a brief look at the national economy. The South and, of course, Alabama are closely tied to national economic movements. As you know, 1970 was a year of slow economic growth with a poorer than hoped for price performance. Unemployment increased as the nation shifted gears away from defense production with the winding down of the Vietnam war and began to direct more of its resources to domestic needs. We have also seen a leveling off a sustained business investment boom.

What are the prospects for 1971? There is not much I can contribute to your knowledge of this year's prospects that you have not already heard or read recently. However, let me say this.

Economic recovery will be in evidence as such domestically oriented sectors, as housing, government at all levels, and investment by the utilities, transportation, and communications industries expands. Corporate profits are also projected to rebound.

However, the cautious consumer, saving at above average rates, the leveling off of the business investment boom and the time lags involved in the changes in

the directions of federal spending will combine to keep unemployment levels higher than we would like to see them.

Of course, all of these things are subject to change as political and economic events unfold. We in the Federal Reserve System will, of course, follow them closely and adopt policies that seem appropriate in light of these changes as we have in the past.

Recent Developments in the South

Recent developments in the South are of interest to us as they can, to some degree, point to the future and hopefully steer us in the directions the region and the state of Alabama will take in the Seventies.

Just over four decades 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 81 percent of the national average.

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

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 is still behind the national average and must continue to grow at a significantly faster rate to bring itself up to the national average.

Let us examine some specific economic facts about Alabama.

In the past twenty years, great numbers of workers have left the farms of Alabama as they have in the South and in the nation. 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 during the Sixties.

The slight gains in Alabama's 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. However, in another area of the financial picture, namely checking account activity, an indicator of total spending, Alabama slowed considerably in the Sixties falling behind both the South's and the nation's rate of increase.

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 1970 with the South's and the nation's, we find that it is only 72 percent of the national

average and 89 percent of the southern average.

During the Sixties, population growth in Alabama was well below that of the South and the nation. A major reason for this low rate of population growth was a net 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. 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 29.9 students per teacher in 1960 to 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 in the Sixties. 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.

How did Alabama do in 1970?

Recent Economic Developments in Alabama - 1970

In 1970, Alabama's nonfarm economy has been hard hit by strike activity.

Strikes in the lumber and wood industry, chemicals, iron and steel foundries, and on two different occasions in the construction industry have depressed employment with a 1.5 percent drop in nonfarm employment occurring over the year. During this period the state's unemployment rate has increased from 3.9 percent in December 1969 to 5.3 percent in November 1970. The Birmingham area is just now recovering from the city's second strike of the year. These strikes have severely depressed a construction boom in business structures which had been going on in the area. Secondary effects from the GM strike resulted in a layoff of some 1,100 rubber workers; most of these workers are now back on the job.

During the year, several food processing plants announced closings affecting approximately 600 workers. The textile industry (the state's third largest manufacturing employer) has shown significant employment losses. In November, one textile plant which employed about 800 workers closed its doors. The primary metals industry--largely iron and steel--which employs the largest share of the state's manufacturing workers also had sizable losses in employment during the year, particularly in Birmingham, Gadsden, and Anniston.

However, there are some bright spots.

The Huntsville area, though particularly hard hit by government employment drop-offs in 1970 associated with aerospace cutbacks and with further cutbacks in the service industry, has been able to attract new industry into the area which has absorbed most of the employment losses. New plants in fabricated metals, machinery, textiles, and apparel accounted for employment gains in these areas.

The Alabama Chamber of Commerce reports that the year 1970 was a banner one for capital investment for the entire state, with total announced capital investment of \$353,806,965. Of this total, \$267,950,997 was for plant expansions and

\$85,855,968 was for new industries. This investment boom which is statewide and takes place in 42 different industries should add some 26,363 new job opportunities for Alabama residents and create a more diversified economy for the state.

On balance then, though 1970 was a rather sluggish year in Alabama (as elsewhere), the boom in business investment in the state seems to indicate a brighter picture ahead.

Summary and Conclusions

At this point, I might summarize briefly what I have said and glimpse into the future.

The South in recent years has made rapid economic progress, and has grown, relative to the nation, at a faster economic pace. Alabama too, for the most part has grown, at a faster economic pace than the nation, but at a slower rate than the South. Considering the current national economic slowdown, the year 1970 was not a bad one for Alabama.

What does the future hold? 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 and Alabama would automatically share in such growth and even, perhaps, continue to maintain an economic growth rate, greater than the national average. However, we must realize that the South, in growing not unlike the rest of the nation, has many similar social and economic problems. We could now count among our urgent priorities the solution of such problems as air and water pollution and urban congestion. The growth of such problems will tend to reduce the South's competitive advantage with the rest of the nation. Further, in some areas which have experienced net outmigration, we may not be able to count on an ample supply of trained labor.

It is true that the South still has a competitive advantage in many areas. Its cities are still of manageable size, land is generally more abundant and prices are generally lower than the rest of the nation. However, the business and governmental leaders and the people of the South are going to have to cope with these problems and recognize the need for forward planning at the regional, state, and local levels in order to insure continued economic progress.

What about Alabama? Will it share in this growth? It can, but there is no guarantee. The year 1970 appears to have been a relatively good one, and 1971, in light of the state's projected investment boom with its attendant new job opportunities, and a forecasted national economic recovery, has a bright prospect. But let us take a longer term view. How about the decade of the Seventies?

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 national average in per capita income, and a larger-than-national 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 out-migration. There is also evidence that its growth of financial capital is lagging behind the rest of the South.

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 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.

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.