

Will the South's Economy Continue to Narrow
"the Prosperity Gap"?

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by

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During these days of change in our economic climate, many Southerners are devoting much thought to the way the South's economy will fare in the 1970's. Of particular interest is the question whether the South will be able to continue closing "the prosperity gap" relative to the rest of the country in the years to 1980, a task that will require the South's economy to continue growing faster than the nation's.

Because a Federal Reserve Bank president is in a unique position to gain impressions of the national and regional economy, I want to talk in terms of this background and share with you some impressions that seem to have a bearing on the South's economic future, rather than provide you with any neat package of statistical projections.

This background has led me to two general but important observations. First, the extent to which economic and financial developments in the South generally parallel those of other parts of the country is impressive. And second, the human factor has a remarkably important effect on the way the economy behaves.

Let's begin by looking at some of the reasons for this close inter-relationship between the economy of the South and the rest of the country. After that, we can turn to

what seems to be the future pattern of economic development for the United States, and finally we can discuss how the South's economy in the next decade or so will fit into this pattern.

First, let us turn to the close relationship between the behavior of the Southern economy and the behavior of the national economy. A few years ago when I began to report on economic and financial developments in the South at the Federal Open Market Committee meetings, I had rather expected--and even really hoped--that the Bank's economic staff would provide data that would clearly show a striking difference between the behavior of the Southern economy and that of the rest of the country. For example, I expected 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, Southern employment was expanding strongly. Or that bank loans in the Sixth Federal Reserve District were declining sharply while banks in other parts of the country were rapidly extending credit to their customers. In reality, however, there have been almost no opportunities to make such dramatic statements. When employment was strong in the South, it was generally strong elsewhere, and if banks were making fewer loans here, banks in other areas were also cutting back on their lending. The Southern economy is so closely linked with the rest of the country that whatever factors influence the national economy will

also have a strong influence on the South's economy.

There were some differences, of course, but they were largely a matter of degree rather than direction. Usually conditions in the District are generally better than in the nation as a whole. For example, during the years 1967-69, when nonfarm employment in the nation was rising steadily, it was nice to be able to report that employment in the Sixth District was advancing at a slightly faster rate. Such relatively minor differences are important, though, as we noted during the past recession. Although employment leveled off and manufacturing output fell in the District during the last recession, these indicators of economic activity held up better and then turned up sooner and stronger than was the case for the nation as a whole.

This is not to say that there are no economic developments in specific areas of the South that run ^{some} contrary to national developments. Currently, for instance, because of the importance of the space program to certain areas in our Federal Reserve District, there are areas that are more depressed than in other parts of the country. But even here, the impact has come from national and not strictly Southern developments.

Even forty years ago there was no doubt that the South was a greatly different economic area from the rest of the United States. The South was an underdeveloped area with problems unlike those found in other areas of the country.

Its per capita personal income was a little less than half of the nation's, and the base of the Southern economy was still agricultural. Consequently, at one time it may have been appropriate, when considering economic development in the South, to concentrate on Southern developments.

But 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 just how great they have been and how rapidly the South has progressed in closing "the prosperity gap". But even though per capita income in the Southeast has advanced in forty years from about \$300-- only one-half of the U. S. average--to last year's average of \$3,200, per capita income still is only 82 percent of that of the entire country. We still have some distance to go before "the prosperity gap" will be closed.

Raising our per capita income from half of the national average to about four-fifths of the national average has required a greater rate of economic growth in the South than elsewhere and does represent considerable progress.

One of the reasons for the rapid growth was that the South's water, climate, natural resources, and ample labor supply gave this area a comparative advantage in the production of certain goods for export to other areas. These factors lay behind the development and growth of the pulp and paper industry--and I need not remind this audience of the great economic impact this industry can have on an area.

Also, chemicals, apparel, textiles, and electrical machinery manufacturing industries developed in the South for the same reasons.

In the process, the structure of the South's economy changed substantially. 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. And a rising level of income made it possible to improve the level of education for its children and to provide other social services for its people.

② The Potential for National Growth

Because the South's economy has become so closely linked with the nation's, the major forces shaping the South's economic progress in the future will, undoubtedly, be very similar to those shaping the nation's. Indeed, this is what actually occurred in the Sixties. Therefore, not to recognize the importance of national economic developments in the South's economic future 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 in the United States in the coming years. Zero population growth has not yet arrived. 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 persons by 1985, and three-fourths of that

population will live in metropolitan areas, compared to only two-thirds today. Also, it will be a relatively young population, with one-third of the expected increase coming in the 25-to-34 age group.

What does this projected population growth imply for economic growth? A Bureau of the Census study 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 as great as its present level measured in real terms.

These projections of a much more affluent society, of course, are based upon certain assumptions. Using past experience as a guide, we know that the sort of economic growth that is projected will require large amounts of capital investments, a more productive labor force, innovations in the field of management techniques and products, and substantial additions to what has been termed social overhead capital.

All of these items will require a tremendous amount of new capital investment, and this capital investment must come from savings in one form or another. Therefore, 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. Also, additional housing will continue to absorb a large portion of new savings. In a free society, these

savings depend 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 will be worth as much in the future as they are now. In the last few years, this has not been the case, since rising prices have eroded the purchasing power of accumulated savings. This is a problem that we are still facing today. We must reduce the pace of inflation, partly because of the great need for 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 will be possible only if the productivity of our labor force continues to increase. Here, increased education and the introduction of new and better productive methods will play a major role. But further productivity can come about only by assuring that each worker is given the opportunity of acquiring the necessary skills and experience to enable him or her to utilize fully his capabilities regardless of original background.

If we are going to have the kind of affluent society that will double the family income by 1985 in terms of quantitative and qualitative standards, then we shall need to spend more for education, transportation, communications, law enforcement, and the provision of health services. It is clear that the provision for many of these needs must by their nature come from governmental action and will result

from the increasing congestion associated with the expanding population and greater urbanization. It must also be pointed out that, if some of these problems are to be properly handled, we will have to have the foresight to undertake a great deal of effective planning--both public and private. And effective planning is one area that the business community has not only the necessary expertise to provide but also an obligation to provide for the community. To default in this leadership may well leave both the business community and the general public worse off.

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 the fragile character of our sophisticated economy. We know our capitalistic economic system cannot create economic growth should the fabric of society in which we live and work be destroyed.

If we were to meet ten years from now and were to look back at what had happened in the 1970's and were to conclude that the kind of economic growth now set out as a possibility had been achieved, we would probably have to describe the 1970's as the decade of the open society during which, simultaneously with the production of wealth, the United States maintained its qualities of movement and closed its racial, poverty, and generation gaps, while scattered acts of disruption ceased, public transportation improved, and great strides were made in cleaning up our air, water, and countrysides.

Let's hope we will be able to say that in 1980.



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. 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 more than the national gain since this was the pattern in the last decade.

Based on such reasoning, by 1985 per capita income in the Southeast could reach \$5,200 in dollars of 1969 purchasing power, compared with \$2,900 last year. I have emphasized the word "could," since this estimate is based upon two major assumptions: First, that the problems we have mentioned will be solved sufficiently so that the projected national economic growth will take place; second, 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.

We have already touched upon the first assumption, and I see no reason that the conclusion reached for the entire country will not equally apply to the South. Now, let us turn for a few minutes to the second: Will the South's economy continue to grow at the greater-than-national

rate that was characteristic of the Sixties? And if this faster growth is to occur, what problems will the South have to face and overcome?

In the past, the South's water, climate, natural resources, and abundant labor supply gave it a comparative advantage in producing the goods and services the nation demanded. But all of us have noticed lately that undesirable things have been happening to our water, that we are having more and more trouble seeing the sun through man-made clouds of pollution, and that our countrysides are being ravaged. 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 valuable natural resources in the South.

Country produced water?

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 for other work.

In the process of shifting from farm work to nonfarm work, the productivity of Southern labor increased enormously. Now, however, there are simply fewer potential workers left in our rural areas who can be drawn to city industrial and service jobs. The task of raising worker productivity will have to be concentrated mainly on improving the productivity of nonfarm workers rather than shifting workers from farm to nonfarm jobs. This may prove more difficult. 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 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. It seems reasonable, however, 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 Southeast, compared with about 43 million in 1970, a gain of between 16 percent and 28 percent.

Unless trends change, most of these additional people will be found in Southern cities, and the problems that arise in congested areas have been well publicized in recent years.

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 are among the 12 metropolitan areas in the United States with over 2 million inhabitants, although Houston closely approaches that mark. Only five Southern urban areas have more than 1 million persons.

The stage in which we find ourselves in respect to urban growth seems extremely fortunate. Urban growth may be inevitable in the South, but we have time to adopt policies and practices of a preventative nature rather than having to concentrate solely on remedial measures.

One suggestion in dealing with the problems of urbanization is to encourage the development of what are called "alternative growth centers" instead of concentrating our population in the major metropolitan areas. These growth centers are middle-sized communities that have the 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 so that it will be possible to direct our growth into these less congested areas.

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 in both the public and private sectors 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 constructive thought will be followed by constructive 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 and, when they do act, may well encroach into areas better handled by the private sector. We are fortunate in the South to still have the time to plan in order to prevent many problems from arising, and we can learn from the problems in other areas instead of having to spend our time trying to correct past problems caused by a lack of planning. This additional time still leaves the South with a tremendous advantage relative to other parts of the country.

Looking back over what has been said today, you may now have the impression that the future is filled with nothing but problems. You may be disappointed that a broad brush was not used to paint a picture of smooth and uninterrupted economic expansion for the South. To do so, however, would only be misleading and would miss the whole point that economic growth essentially involves overcoming problems.

Many problems will need to be solved if the South's economic progress is to continue. For it is only by meeting

and solving problems that we progress and then reap the rewards. Our rather spectacular economic growth in the past resulted from recognizing one set of problems--the need to shift our Southern economy from its predominantly agricultural base--and then taking steps to solve them. By directing our attention to problems of a little different sort in the future, we should be able to help the South continue to record a faster rate of economic growth.

In closing, I would like to challenge you as the noted Savannah economist and at one time economic advisor to the Federal Reserve Bank of Atlanta, the late David McCord Wright, challenged his audience in his Presidential address delivered to the Southern Economic Association some twenty years ago: "Let us try to keep our sense of proportion and get on with the work in hand. The rest of the world can then say about us what it chooses."