

SOUTHEASTERN ECONOMIC DEVELOPMENT  
AND THE BANKING INDUSTRY

An Address by  
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This morning I am going to discuss present and future economic developments in the southeastern United States from the banking industry's point of view. In considering this extremely intriguing topic, I will talk against the background of my work in my official position with the Federal Reserve Bank of Atlanta.

I devote much of my time to wrestling with the hard problem of helping to develop national 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. I have this 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.

My experience in playing the dual role of having to consider the impact of monetary and credit policies on the nation's economy and their relationship to the developments in the Sixth District 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 in 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 time allotted to me then, I am going to discuss some of the reasons for this close relationship between the economy of the South and the rest of the country. Then I shall talk about the pattern of economic developments for the United States in the future and I shall suggest how the South's economy in the next decade or so will fit into this picture. Finally, I should like to offer my opinions about the meaning of these economic developments to the banking industry and the banker.

#### Southern and National Economies Related

First, let us consider the close resemblance in the behavior of the southern and the national economies.

A few years ago when I began to report on economic and financial developments in the South at the meetings of the Board of Governors in Washington, I had rather expected that my economic staff would provide me 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, employment in the South was expanding strongly. Or that bank loans in the South were rising sharply while those in the rest of the country were declining. 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 in the Sixth District, banks in other parts of the country were also cutting down on their lending.

There have been some differences, of course. For example, in early 1970, just after the latest recession began we noticed that unemployment in the Sixth District, as in the United States, was rising. However, we also found that it rose only to a peak of about 5 percent and started down sooner than unemployment in the nation. Nationally, the rate of unemployment rose to over 6 percent and it has been much more sticky in coming down.

We noticed a similar pattern in industrial production. While we noticed a slowdown in industrial production in the District at the outset of the recession, we saw that slowdown was much less pronounced than was the national slowdown. Also, the recovery in industrial production was faster than the national recovery. While our District was strongly influenced by the cutbacks in some specific defense-related activities during the recession, generally, we found that we were hurt less in terms of relative cutbacks in the Southeast than was the nation as a whole. Certainly there were some particularly severe cutbacks, especially in the space programs which affected our District states. However, these were once again primarily national developments. And, a recent study by our Research Department confirmed the results of an earlier study by the Department of Labor which stated, in essence, that we were less dependent upon defense-related activity in the Sixth District than was the nation as a whole. This is especially encouraging because it indicates a developing diversity in the structure of the South's economy, although our ties to the national economy are still strong.

A Different South

Over four decades ago, 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. This is an area which in addition to the Sixth District and Arkansas and South Carolina, represented at this conference, also includes the states of Kentucky, North Carolina, Virginia, and West Virginia.

Things have changed since 1930, as all of us know. Those of us who have witnessed these changes day by day and year by year may not always realize how great they have been. In 1970, per capita income in the Southeast was just a little less than 80 percent of the national average. Further, the Southeast continues to gain ground. Preliminary data for the first three quarters of 1971 indicate that the 12-state Southeast area reached a per capita income level of 82 percent of the national average.

To change, of course, from a per capita income position of 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 reason for the rapid growth is that the South's water, sunshine, and ample labor supply in the economic setting of the period, gave the



South a comparative advantage in the production of certain goods for export to other regions. These factors lay behind southern development of pulp and paper, chemicals, apparel, textiles, and electrical machinery manufacturing industries.

In the process the South's economic structure underwent substantial change. As the South shifted from primary reliance on agriculture as the chief source of income to manufacturing and the provision of services, more people moved to the cities. The South became more urban. Growth in income improved the ability of Southerners to educate their children. In the past two decades the median school years completed have come closer to the median for the rest of the United States.

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 '60's. 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.

#### The Potential for National Growth

What will be the nation's growth pattern? One thing evident about the future is that the nation will have more people. The U. S. Bureau of the Census projects that the nation's population will increase by about 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 about 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.

We can be reasonably certain of these population trends. What does this population growth imply for the economic growth? A study made by the U. S. Bureau of the Census suggests that the average family income could rise from \$8,600 in 1970 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. However, I don't believe that there is anything automatic about this projected growth.

These projections of a much more affluent society, of course, are based upon certain assumptions, a chief one being that growth will continue much as in the past. If our past experience is any guide, however, we know that this sort of economic growth will require a more productive labor force, good management of natural resources, and large amounts of capital, both for private investment and for additions to our social overhead capital, including the transportation system, communications, education, law enforcement, and provisions for health that are required for an advancing and smoothly functioning modern economy.

We know that the capital investment required to finance such growth-enhancing expenditures, must come from savings in one form or another. Since inflation encourages consumption at the expense of saving, we must exert continued effort to hold price increases to a minimum rate. Our success in this effort will foster the accumulation of capital which under traditional American methods depends upon the savings of individuals and businesses.



In addition to private capital investments in machinery, plant, and equipment, some of the accumulated funds must be converted to social overhead capital. The quality of our educational systems must be strengthened to enable individual citizens to develop and utilize their full capabilities. Not only will this enable the average worker to share in the fruits of the economy, but it will increase his productivity, a necessary ingredient both to fight inflation and to meet foreign competition.

If we are going to have the kind of affluent society that will double real family income by 1985, clearly we must spend more for better transportation, communication, law enforcement, education and health. While some of these needs will be met by the workings of the market system, others must be met through government action. Many of the increasing needs for social overhead capital will stem from the increased congestion associated with the growth in population and in urbanization. And, to provide for these needs, there will have to be effective planning by governments in cooperation with the private sector.

All this suggests that decisions by humans 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 disruptive forces rend the fragile society in which people live together and cooperate in the economic process of producing income.

If we achieve the type of true economic growth I have pictured, we can probably describe the 1970's as follows: "The 1970's was the decade of the open society during which, simultaneously with the production of wealth, the



United States maintained its qualities of freedom for the individual 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."

#### 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. We could thus come to the easy conclusion that with personal income throughout the country half again as large in 1985 in real terms as it is now, personal income in the South will increase even more since this has been the pattern of the past.

By such reasoning we may say that per capita income in the Southeast could reach \$5,200 in dollars of 1969 purchasing power by 1985 compared with \$2,900 in 1970. I have emphasized the word "could" since this estimate is based upon two major assumptions. One is that we will cope sufficiently with the problems I have mentioned to assure the projected national economic growth. Our second assumption is 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.

Let us turn for a few minutes to the second assumption: The South's economy will continue to grow at the greater-than-national rate that was characteristic of the '60's.

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

However, we now are facing pollution problems which are beginning to cloud our water and block out our sunshine. Not only do we find that land for industrial plant sites is becoming scarcer and more costly, we also are realizing that we cannot avoid imposing pollution control requirements on industry.

In a similar vein we are finding our labor costs catching up with those in the rest of the nation. Previously 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 draw 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.

When southern labor shifted from farm work to nonfarm work, its productivity increased enormously. We are getting closer to the time, however, when this source of labor 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 exceptionally difficult task: The South's greatest potential lies in improving the quality of its labor force, yet that requires even greater educational and training effort.

We are just now facing some of the kinds of problems of urban congestion that have plagued other parts of the nation in the past. The U. S. Bureau of the Census cannot yet 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 about 55 million persons living in the Southeast compared with about 44 million in 1971.



Unless trends change, most of these additional people will be located in southern cities because people in the South have been moving from rural to urban areas. Of the 1,563 counties losing population in the United States in the decade of the 1960's, over a third were in the Southeast. On the other hand, there were 13 metropolitan areas in the Southeast with populations over 500,000 in 1970. Population had grown in these areas in the '60's by 25 percent, whereas for the entire Southeast the increase was 11 percent.

So indeed the South is now experiencing many of the problems of increased urban congestion including pollution and higher land and labor costs.

What Does This Mean to the Banker? To recap what I have said to this point, the decade of the Seventies will be one of rapid income growth accompanied with continued urban expansion. As a result we will increasingly feel the presence of broad social and economic problems which must be met.

Additionally, this growth pattern will bring many changes which will generate concerns for the banking community. If we add the unknown technological developments to the growth patterns I have mentioned, the Seventies will usher in changes in banking structure and post a number of broad challenges to bankers. These challenges will require a new dimension in banking and a new dimension in the professional banker.

#### Challenges to Bankers

The banking industry now faces and will continue to face, challenges that stem from broad social and legal questions. How these issues are decided will have social, legal, and economic consequences. It will be the social responsibility of the banker to look hard at these large scale problems with implications for the banking industry. I might also add



that, in the long run, the solutions may have as much of an economic impact on individual banks and the banking system, as the solutions of the internal operating problems in individual banks.

A common general problem concerns banking structure. With the increasing growth of metropolitan areas there will evolve a need for better banking service to industry and to the consumer. The continued growth of metropolitan areas suggests that the location of industries and jobs will continue to center in these areas. There will most certainly evolve a need for more banking offices, and there will also evolve a need for newer and improved services from the banking system, particularly to industrial and commercial users of funds. We can envision as a result the need for more flexibility in banking structures to serve large users of funds who want to finance their expanding businesses. Probably we will see a need for legislation which further facilitates serving the credit needs of consumers and industries, especially in metropolitan areas. In those places the size of banks and thus the scope of their service to consumers and businessmen may be limited by laws regulating either branching or holding company activity. While I am not endorsing either of these banking arrangements, I am aware that flexibility is a key providing sufficient financial resources to foster the growth of businesses and industries in urbanized areas.

Another fact of life brought on by the growth of metropolitan areas will be the bankers' continuing and ever increasing dependence on the central city. A corollary to this is the need to plan for orderly growth before the cities reach unmanageable proportions.

It seems to me that we find ourselves in a fortunate situation with

respect to urban growth. Although 13 of the metropolitan areas in the country with over 500,000 persons, or roughly 20 percent, are in the Southeast, only 4 have more than 1 million people and none have reached 2 million persons in size. Urban growth may be inevitable in the South, but we have time before further urbanization to adopt desirable policies and practices rather than having to concentrate our energies on remedial measures for dealing with the accumulated problems of the past.

A related concern for us is the decline in basic services which contributes to the exodus of middle income families to the suburbs, taking with them their talent and tax dollars. Will the city leaders be able to reverse this trend?

Finally, recognizing that the middle and upper income migration to the suburbs is a firmly established trend, and any reversal of this migration process will be a slow one, I should like to pose this question: Will those talented executives and professionals who live outside the central city apply their talents to solving metropolitan problems? A recent editorial in Atlanta magazine stated, in essence, that the supply of talented people who are willing to devote their time to area problems is limited and comes mostly from the inner city. As a result, those inner city executives who are interested in community problems are most likely overworked, which further limits the supply of executives willing to volunteer for such activities.

Indeed, the broader decisions which the banker makes with regard to his community may have just as significant an economic impact on his bank in the long run, as the internal decisions that he makes about managing his bank.

All of this suggests a new dimension for the professional banker in his responsibilities to the community, as well as in the internal management of his bank. In large degree the health of the banking industry is dependent upon the way the economy behaves, and the broad community problems confronting bankers reinforce my own belief about the importance of the human factor in the behavior of the economy. This economic behavior in turn has a heavy impact on the banking industry. We in banking cannot afford to ignore the human factor which can have a major influence on our businesses.