The Future of Economic Development in the South: Addressing the Consequences of Our Past

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To understand where the South is going, we must understand where it has been. This article highlights past and current economic trends and state development policies. It concludes that the region must focus on its existing human and capital resources to ensure continued development. The following article is taken from White's February 5 keynote address to the 1988 Annual Alumni Conference of the Department of City and Regional Planning at the University of North Carolina at Chapel Hill.

We at the Southern Growth Policies Board are most often asked, "What is the future of economic development in the South?" After six years as Executive Director, I have concluded that the answer is simple in its statement and staggering in its implications: "The key to our future is dealing with the consequences of our past."

During its fifteen year history, the Board has been in the business of crafting a better future for the South out of its good and bad past: during the Board's first years by focusing on growth management in the boom years of the early seventies; in the late seventies by fighting battles for the South in the federal funding wars; in the early eighties by refocusing on state policy regarding human resource development. Now, during the middle and late eighties, we have been trying to integrate a wholistic approach to state development policies – in the words of our new motto, we are "creating strategies for economic development."

We create these strategies through our research, publications, and meetings. The Board has regular, serial publications dedicated to emerging economic issues, human resource development, international trade, growth and environmental management, intergovernmental relations, and technology. We also publish special studies and proceedings. The Board also creates development strategies by energizing networks throughout our twelve states and Puerto Rico. These networks take our products, and adapt them and use them as instruments of policy change at their respective state and local levels.

The Southern Growth Policies Board is funded and governed by the thirteen state and territorial governments, with the governor, a state senator and representative, and two citizen members serving on the Board from each member state. This combination of gubernatorial, legislative, and private sector membership gives us a unique strength, critical in today's economy. In addition, we have an Associate Membership program which includes over 250 corporations, universities, colleges, and nonprofit agencies.

Jesse White, Executive Director of the Southern Growth Policies Board.

Before getting into the principal thrust of my remarks about the future, let me say a word about our new motto, "Creating strategies for economic development." It is important, both because we chose it carefully and because it will give you an understanding of the lens through which we look at the future.

First of all, we chose the verb "creating" to imply that our work is cutting edge in nature (and, therefore, sometimes risky). We hope to shed new light on new and old problems, and to contribute to public policy an intermediate-to-long range look at the future. Second, the term "strategies" also implies a long-term and global perspective, as opposed to the often tactical, parochial, and brushfire work of our state and local political systems. And finally, the term "economic development" is critical, particularly as distinguished from "economic growth."

Let me say a word about the difference between "growth" and "development." Simply put, it is the difference between spurring economic activity, which is growth, and developing the *long term capacity* to generate self-sustaining economic activity, which is development. Examples might help clarify the distinction:

- Increasing per capita income is growth; increasing per capita wealth is development.
- Increasing the number of jobs is growth; improving the per capita education and skill levels of the work force is development.
- One or several local companies successfully entering export markets is growth; all students graduating with some meaningful exposure to foreign language, world history, and international economics is development.
- Landing a branch plant is growth; enhancing the environment for local business creation, success, and expansion is development.

In summary, economic growth measures increases in short-term indicators; economic development measures the creation of long-term capacity. And both are critical in the policy arena, because people need jobs in the short run while capacity is being built in the long run. But one measure cannot be ignored at the expense of the other; too often in the South, we have ignored the hard, long-term challenges of development and concentrated instead on simple job growth.

Our goal at the Board is to keep the eyes of our leaders focused, at least in part, on "creating strategies for economic development." And, of course, all of this deals with the future, which brings me back to my original theme. The more we think about the future, particularly in the South, the more we have to understand our past and its legacies, both good and bad, in the present. That is the way I would like to organize these brief comments: first, to delineate what I see as some major trends and issue clusters in our future; second, to see how well our past policies have prepared us to deal with that future; and third, how our current policies might be better crafted.

I will begin by delineating eight major trends which will affect the future of economic development in the South.

The first major trend is that the **Era of the Sunbelt** will soon be over; it *is*, in fact, already over in many parts of the region. By this, I mean the 1980s media image of our region as the land of milk and honey—an area to which people are moving and where jobs are being created. In the 1970s, this was an accurate image: Southern population grew 50 percent faster than the United States and job creation likewise outpaced the nation.

But just when this image had become implanted in the American mind, the reality had begun to change. Per capita income growth stayed flat in the last half of the decade, at about 86 percent of U.S. per capita income, and the differential in the rate of job creation between the South and non-South narrowed. While our Atlantic Seaboard states resumed their growth by the mid-eighties, most of the Deep South states had not. Some, like Louisiana, Oklahoma, Mississippi, and Alabama, had actually slipped in relative per capita income.

Our most recent report of the Committee on Southern Trends, cites projections which indicate general regional stagnation in per capita income by the year 2000, although some of our current "worst" states will advance while some of our current "best" states will decline slightly. Likewise, in about 1995, the job creation rates are likely to turn around, and the South will lag behind the nation in the creation of new jobs. The latest population projections indicate that even the most vaunted aspect of the Sunbelt boom—our growing population—will reverse by the year 2000, and that the nation's growth will exceed ours.

As our Committee on Southern Trends states: by the year 2000 "...southern states may not be able to rely, as some have in the past, on inmigration to provide either fresh recruits for the labor force or an expanded tax base...the future development of the region will be tied to its leaders' ability to make better use of the human, natural, and economic resources it now has."

The second major trend will be the nature of change itself. Change has always characterized economies in response to technological break-throughs and political decisions; however, what is different now is the pervasiveness and velocity of these changes. The Commission on the Future of the South proclaims, for example, that we are living in an era of technological renaissance. This means that innovations are ever more frequent and powerful—constantly altering products, the ways in which businesses are organized and financed, and how markets are defined and served.

At the bottom of the business spectrum, during the past six years, we have seen unprecedented levels of small business creation and failure—a boiling caldron of entrepreneurship. At the top end—in the Fortune 500—we see much of the energies of America's so-called 'great companies" being spent on mergers, acquisitions, hostile takeovers, restructuring, and refinancing. This gargantuan and costly reshuffling of assets does not result in significant increases in either new jobs or productive capacity. Robert Reich, at Harvard University, refers to this as "paper entrepreneurship."

For the businessman and worker, all of this means increasing uncertainty in an ever-changing and churning economy. Recent estimates indicate that the average worker entering the labor force during the remainder of this century will change occupations at least three times and changes jobs seven times during his or her working life. The entrepreneurial churning at the bottom, the internationalization of markets, and the seemingly whimsical effects of corporate restructuring on thousands of executives and workers will probably continue until the year 2000.

A **third trend is the growing importance of the human resource base** in the future economy. Some economists argue that human capital has been the driving force in national economic growth for decades; this is certainly the case in the South today. An educated, skilled, flexible work force will be *the key* to a well-functioning economy in this volatile and uncertain environment. We already know the essential facts about the work force in the year 2000. About 75 percent of that workforce is already working and all have been born. Of our *current* labor force, 25 percent is classified as adult functional illiterates.

Regarding *new* entrants into the labor market, we all hope that the impact of current education reform will staunch the flow of illiterates into the work force. With the slowing of population growth, however, we will not have an abundant supply from which to choose, as immigration slows and high school graduation rates decline. Furthermore, according to a recent study by the Hudson Institute called *Workforce 2000*, the profile of new entrants into the labor force is very different from that of the past. Only 15 percent will be white men, traditionally perceived as the main component of the work force. Two-thirds will be women, and nearly 21 percent minority or immigrant women; and over 42 percent will be minority or immigrant.

These figures constitute the profile of our current and future labor force upon which our competitiveness will rest.

A **fourth trend is the continuing globalization of the economy.** This development has proceeded at exponential speed in the last twenty years and is almost certainly irreversible. For example, for forty years, from 1929 to 1969, America's dependence on international trade remained small and constant, at about 4 percent of GNP. Between 1969 and the present, however, it has soared to over 20 percent of GNP; today, about 70 percent of our goods compete here and abroad with foreign-made goods.

This nation's share of world production has slipped from 40 percent in 1950 to 22 percent in 1980, in part due to the happy recovery from World War II of the rest of the developed world and the emergence of Third World economies. But during the course of the past year, we saw the consequences of this increased world competition, to wit:

- Our 1986 trade deficit hit an all time high of $170 billion.
- For the first time since World War II, the U.S. lost (to Germany) its position as the world's number one exporter.
- For the first time in recent history, the U.S. had a negative trade balance for several months in agricultural commodities.
- In 1986, the United States became, in the words of economist Fred Bergsten, "the largest debtor nation ever known to mankind."
- October 29, 1987 and its aftermath illustrated starkly just how profoundly interrelated the world's currency markets are.

While the nation can and must take steps to increase our international competitiveness, these fundamental trends show no signs of abating. More and more Americans work for foreign-owned firms, as do nearly a million Southerners; more and more jobs depend on exports—over one and a quarter million jobs in the South alone. Firms continue to internationalize in terms of markets, ownership structure, and production. Barring a calamity, we will most certainly function in a profoundly globalized economy by the year 2000.

The **fifth trend** will be toward a more **sophisticated understanding** of what has been called the post-industrial economy. The percentage of the work force employed in manufacturing will continue its twenty-year decline, and most of the job creation will be in the broadly defined service sector. In the South, for example, the work force employed in manufacturing will decline from a 1985 level of 18 percent to 13 percent by the year 2000. Furthermore, probably 75 to 80 percent of the new jobs created will be in the service sector. Much of this relative decline in manufacturing employment will be due to automation, which, in turn, will be a response to international competition and technology.

This relative decline in manufacturing employment does not mean a decline in the importance of manufacturing itself. Agriculture is an appropriate historical analogy. The percentage of the American workforce employed in primary agriculture declined from almost the entire population at the time of the American Revolution to 2 percent today. Yet American agricultural output is better and greater than ever. The application of technology to agriculture increased productivity while reducing the labor required. The manufacturing sector is undergoing a similar transformation.

Manufacturing activity in the coming decades will not be in the mass employment arena, as it was prior to World War II. Instead, the work force will consist of highly-skilled workers in technology, developing and applying sophisticated, computer-driven, integrated, quality controlled, and flexible automated manufacturing systems. Again, according to the Hudson Institute, although today 40 percent of U.S. jobs fall into the "lowest skill" category, by 2000, that figure will fall to 27 percent. In contrast, during the same period, the number of "highest skill" jobs will increase from 24 percent to 41 percent.

Closely related to this trend is a **sixth one: information.** Financial capital, raw materials, and skilled labor will continue to be essential to this new economy; however, information is emerging as the new strategic input into the economy of tomorrow. The percentage of the American labor force employed in information-related occupations has grown from around 5 percent after the Civil War to over 50 percent today.

Access to information and the infrastructures to transmit it will be key determinants of a region's success. The development and availability of data bases and the telecommunications infrastructure to move them will be critical public policy issues for the next twenty years. Recent moves in Washington, for example, to privatize or charge fees for data heretofore collected by the federal government and made available in the public domain should be monitored carefully in the South.

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Another aspect of this information age is the growing interconnection between education and economic development. David Birch of MIT says it all when he asserts that "we will have to live by our wits." This statement recalls the discussion of trend number three, in which we saw that the education, skills, and attitude of the labor force will be the single most important key to the future. This has profound implications for our education and training systems. Furthermore, it extends to our institutions of higher education, where the availability of brain power, particularly the access to technology, is an important factor in local growth and development. As our Research Director, Dr. Stuart Rosenfeld, says, "Access to information and knowledge has replaced access to markets and suppliers for many new companies. One effect has been to make colleges and universities key attractions in economic development."

A **seventh trend** is that, as is typical, **altered development patterns emerging out of a new business climate will have locational impact.** In the next twenty years, this spatial impact will likely be the continued metropolitanization of the Southern economy at the expense of many rural areas and small towns This trend most likely began a decade ago, but was documented by the Southern Growth Policies Board, followed by others, only recently. Until that point, the development pattern was one of dispersed industrialization powered by branch plant recruitment. This forty-year pattern began its relative decline sometime in the mid-seventies as globalization crashed over our traditional, labor-intensive industries like a tidal wave. As these industries began to "automate, emigrate, or evaporate," many of our smaller cities, which relied on these plants as their economic backbone, became distressed. Traditional manufacturing jobs were being lost in these areas, while the new information and service economy jobs were being created in the metropolitan areas. This phenomenon led to our current concern that two Souths are being created—one that is metropolitan, middle class, and growing, and one rural isolated, heavily minority, and declining.

Since most of the elements essential to this new business climate—major airports, universities, urban amenities, telecommunications, and good schools—are found in our larger cities, this pattern of metropolitanization will probably continue. It will also create a tricky policy equation at the state and regional level: managing the growth in our emerging metropolises on the one hand, while supporting economic development in our rural and small town areas on the other.

The **eighth** and final trend which I see as critical in the next twenty years is the **growing need to develop sophisticated, collaborative partnerships** between the public and private sectors. I again quote Robert Reich of Harvard, who characterizes the historic relationship between government and business in America as one of either "confrontation or collusion," but rarely true collaboration. Our major industrial competitors have been perfecting collaborative models for a long time. The Japanese experience is well known, but the Germans have also developed a similar model. The April 1986 issue of MIT's *Technology Review* outlines some successful collaborations in Germany, Denmark, Sweden, France, and Italy. The key, as the article points out, is for the state to encourage "industries to reorganize in a manner that encourages innovative specialization."

We at the Board have long cited the Cotton Incorporated model as an innovative partnership between the federal government and the cotton producers. This partnership turned around a potentially disastrous slide in the market share for natural fibers. We feel that more barriers will have to fall between the public and private sectors to enhance America's and the South's competitive position in world markets.

How well positioned is the South to deal with this future? I return to my opening question, how well has our past prepared us for the future? In some ways, very well. In other ways, very poorly. We have come a long way in closing the per capita income gap from its 1930 level of 50 percent of the U.S. average to a figure that is now approaching 90 percent; we have diversified the economy until our employment structure closely resembles that of the nation; and we have made vast strides in education. But, as the report of the Commission on the Future of the South says, we are still only *halfway home and a long way to go.*

One fundamental economic policy was, initially, very successful. In the 1930s, the South had a widely depressed economy, with many workers displaced from the agricultural sector and under-educated. Mississippi pioneered the model of recruiting branch plants of low-skill manufacturing firms based outside the South to come into the region to provide badly needed jobs. We lured these plants with the promise of abundant, unorganized, and cheap labor, low taxes, public subsidies in the form of Industrial Development Bonds and tax holidays, and abundant natural resources. This policy spread throughout the South until it became the industrial policy of the region. It was phenomenally successful. It did, in fact, industrialize the rural and small town South.

There was, however, an awesome, long-term price to pay. The South, in essence, sold the region's low-skill, low-wage, unorganized work force. Only the fact that the work force was not unionized could be considered an advantage today. Its low wages produced only poverty; 25 percent of the labor force produced by its low skills and education is functionally illiterate—hardly the skilled, flexible human resource base I discussed above. And the low taxes denied the public funds for badly needed investments in education and infrastructure.

The industrial policy of branch plant recruitment also obviated the need for venture capital, industrial outreach, technology transfer, or the teaching of entrepreneurial skills—key ingredients of indigenous business creation and success. None of these were considered essential, since the goal had been merely to import jobs rather than create them. The only good innovation was the development of an excellent two-year college system to train workers for the new manufacturing jobs. We at the Board are looking at ways of transforming those fine institutions into a system which will address the future economy rather than the past one.

Other policies of our state governments were also both good and bad. They were generally friendly to business after the Populist era and still are, which is a plus. They were also fiscally sound and stable, which business always likes.

Southern Growth Policy Board members include: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, and Virginia.

However, the flip side contained some disastrous policies. The financial responsibility of state governments was a reflection of their extreme conservatism. They tended to be suspicious of mass public education and grossly underinvested in education, economic, and social programs. Even though these statistics have improved in the last ten years, the South still spends only about 78 percent of what the rest of the nation spends on elementary and secondary education. It is not surprising, then, that the return on investment has been correspondingly low, as the South has lower performance on all education indicators and a higher percentage of dropouts.

On the other hand, these neo-Bourbon regimes in the South wanted to ensure a good college and university education for their sons and daughters, so they historically did a much better job of investing in higher education. When related to personal income, the South still spends at a much higher rate relative to the nation in higher education than on elementary and secondary education. As a result, the South does have a well-dispersed number of post-secondary schools and a few excellent ones. However, in trying to make too many of these institutions research universities, states have often spread the resources too thin and levelled the playing field too much. As a result, because we have developed too few world-class centers of excellence, the South is disadvantaged in the global race to generate and capture the benefits of technology and innovation.

The other great legacy of our past is, of course, the racial caste system which had practically no positive consequences. By undereducating black Southerners and excluding them from vast sectors of the economy, we now have 20 percent of our work force trying to overcome a century of exclusion from education, training, entrepreneurial know-how, and leadership development.

The Bible says that you sow the wind and reap the whirlwind. Almost 40 percent of the adult black population in the South is functionally illiterate; 35 percent live in poverty; their unemployment rate is 2.5 times greater than for whites; and in the increasing number of single-parent, female-headed black families, almost 80 percent of the children under six live in poverty. Remember these figures as you recall that between now and 1995, 28 percent of our new entrants into the labor force will be minorities. Unless this cycle of poverty and lost potential can be broken, it will be a major barrier in our efforts to develop a world-class economy.

Another consequence of our history deserves mention. Prior to the Civil War, the South had one of America's more internationalized economies. Cotton was traded globally, and we had some of America's oldest and greatest ports, such as Charleston, Wilmington, Savannah, and New Orleans. However, since that tragic conflict, we have lost that orientation which could have been a leg up in this globalized economy, had we maintained the momentum. Now, we share with most other Americans an alarmingly provincial view of the economy and an appalling ignorance of other cultures, languages, and economies. The question is, can the South recapture its leadership in the international marketplace?

A final historical note: because of our definition of economic development and the structure of our industrial economy, the nature of leadership was hierarchical. A planter-manufacturer-banker-lawyer elite at the top, with a vast labor pool at the bottom, meant that the requirements of leadership were narrow. Due to the increased focus on interdependence and the necessity that community revitalization be broad-based, many of the small towns and rural communities suffer from leadership vacuums. It is becoming increasingly clear that in the churning economy of the twenty-first century, creative leadership will be the key ingredient to making everything else happen in states and localities.

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We at the Southern Growth Policies Board have been addressing many of these issues for the past six years through our publications, conferences, and networks. All of this work came together in a new, integrated, and exciting way in the 1986 Commission on the Future of the South. We labored for over a year with a twenty-person, blue ribbon commission appointed by our chairman, Governor Bill Clinton of Arkansas, to produce the final report and nine support documents, called by Governor Clinton "an unprecedented treasure trove of information on the South and Southerners." Chaired by former Governor William Winter of Mississippi, the Commission's final report, *Halfway Home and a Long Way to Go*, has been acclaimed one of the most compelling and moving public policy documents in Southern history.

Halfway Home lists ten regional objectives for the South to work on for the next five years. These objectives provide us with a roadmap for addressing that future I have described and the problems we face. It posits nothing less than a *new model of economic development for the South.* It is a model of internal development, rather than external, and one that calls for a new set of strategies aimed at education and training, capacity building, indigeneous business creation, and a far more sophisticated role for government.

It is here, I would argue, that we find the good news from our region in our capacity to come together as Southerners, to care about each other, and to work on our problems collectively. This is a great regional strength that is found nowhere else in America. People in one Southern state *really do care* about their fellow Southerners in other states. This sense of regional identity is a tremendous asset if we harness it positively and with vision. And creating a regional agenda for action to address the problems and opportunities we share is what the Commission on the Future of the South is all about.

In the following ten regional objectives, you will see an action agenda which addresses that future I described above:

1. Provide a nationally competitive education for all Southern children.
2. Mobilize resources to eliminate adult functional illiteracy.
3. Prepare a flexible, globally competitive work force.
4. Strengthen society as a whole by strengthening at-risk families.
5. Increase the economic development role of higher education.
6. Increase the South's capacity to generate and use technology.
7. Implement new economic development strategies aimed at home-grown industry.
8. Enhance the South's natural and cultural resources.
9. Develop pragmatic leaders with a global vision.
10. Improve the structure and performance of state and local government.

I will not discuss these objectives in detail, but I urge each of you to read the report. It is available free of charge from the Board; it is only 23 pages long, and can be read in less than an hour. In addition, the Board published nine documents to support the final report, produced by the

Commission's Committees on Human Resource Development, Technology and Innovation, and Government Structure. Five cross-cutting issue reports were also published entitled: *Equity, Internationalization, Urban-rural, Public Finance,* and *Quality of Life.* In addition, a data book of statistics on all Southern states deals with these issues.

Another unique feature of this Commission report is the historic commitment of the Board to put the recommendations into effect. Governor Martha Layne Collins, the chairman after Governor Clinton, actually devoted her term to follow-up and implementation activities. Our current chairman, Governor Baliles of Virginia, is similarly committed. In fact, all of the work of the Board in some way arises from and advances the ten regional objectives.

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In this report and in the work of the Southern Growth Policies Board I see great hope for our region to be globally competitive. But it will not be easy, and it will not be cheap. The report asks, "Can we afford to make high-priced changes when budgets are tight? Can we afford not to?" A more difficult cost may have nothing to do with money, but with our historical reluctance as Southerners to change the way we do things. I would like to close with some selected quotes from *Halfway Home and a Long Way to Go* written by Doris Betts:

The familiar song says that old times in Dixie are "not forgotten." William Faulkner adds that in the South the past is not only forgotten—it's not even past! History is to a people what memory is to an individual, and too often the old South preferred the past, resting by the roadside swapping tales of yesterday, postponing changes until the weather cooled, the crops were in, or the moon was in the right phase.

We dare not retrace that long, weary road. To honor the past is one thing. To prefer it will cost us the future.

We are already carrying into that future as heavy a load of past mistakes as past glory. If part of the burden of history is a poor underclass now threatening to become permanently mired in poverty—one of the South's surprises is how a wall of isolation, like Jericho's, has tumbled almost overnight—we must now decide which parts of our past need preserving and which need to be discarded.

The Commission praises, for example, the restoration of historic buildings and main streets; it applauds efforts to keep the South green and natural. It finds that our reverence for strong personal relationships and family values are an enduring strength. We must save the best of what we inherited and bequeath it to the next generation.

But there are old mistakes and problems we need not pass along. Other self-proclaimed "New Souths" have dragged behind them like long, old chains the inevitable outcomes of the plantation system, secession and reconstruction, sharecropping, low-wage factories, and segregation. Decades after old economic systems have vanished, their high human costs remain.

As Robert Penn Warren has said, examination of the past should be done in order "to find what is valuable to us, the line of continuity to us and through us." Whatever the South failed at yesterday can be turned to success tomorrow; what it lost can be restored; what it dreamed can be made real. . .but change will prove tough and expensive.

Two centuries ago, when Benjamin Franklin looked up from signing the Declaration of Independence which was to transform a colony into a nation, he remarked, "We must all hang together, else we shall all hang separately."

As the Commission listened to concerned Southerners from every state, it became clear that the 1776 spirit of independence is still alive and well in our rugged individualism. But, something else has become clear: a sense of *interdependence,* growing awareness that in today's world the good life of one individual is inextricably linked to the good life of the next. The South is part of a complex independent nation and a shrinking world.

The choice is one of action or inaction, of moving forward from this crossroads on our continuing journey home or of freezing in our tracks with little prospect of completing the journey.

If we fail to address the ten objectives in this report, unlike the signers of that original Declaration, we will not literally "hang." We will, instead, simply stand still while a bustling world economy moves into the next century and leaves us behind.

By forging this new Declaration of Interdependence [among all people of the South and us with the world] we can renew our journey home. By taking action on these regional objectives, we can honor the past while moving into the future and building for ourselves and our children a resilient, competitive, and humane society which will, by 1992, bring us a lot closer to home. □

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