SOUTHERN REGIONAL ECONOMICS IN THE 1990s: BACK TO BASICS? (Presidential Address, April 9, 1994)

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I. INTRODUCTION

This year marks the 33rd anniversary of the founding of the Southern Regional Science Association. It also marks the 20th anniversary of my career as a regional economist. While that may not seem long to economists in general, regional science and regional economics are relatively young fields of specialization.

I spent the entire 20 years of my career in the South, as a Southern regional economist. As such, I feel somewhat qualified to speak on the state of Southern regional economics—where it has been, what the current state of the profession of regional economics is in the South, and where I think it should be headed. I should note that this is not a scholarly, exhaustive literature review of Southern regional science like that presented in Hite (1985), nor is it an exhaustive history of regional science in general like that presented by Isserman (1993) in last year's SRSA presidential address. Rather, this paper presents a highly personal view of where its author and Southern regional economics have been during the last 20 years and where they should be headed.

I begin where Isserman (1993) ended his SRSA presidential address last year:

There is a strange stillness in regional science (and in economics). Both seem to have an *unreflective* nature, an almost total lack of concern over whether their basic premises are sound . . . Yet, with the exception of presidential addresses, regional scientists pay very little attention to such *fundamental* questions as what it is that they are really doing and whether they are doing what they claim to be doing or ought to be doing . . . Today regional scientists still work indoors with data for things they have never seen. In fact, they often work indoors *making up* data for things that they have never seen.

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Regional scientists *need* to go outdoors more (Isserman 1980, 31-37; emphasis added).

I could not have written more appropriate words than those to establish the theme of this paper, as its subtitle, "Back to Basics," suggests.

The remainder of this paper is in three parts: (1) reflections on the past 20 years of Southern regional economics, from a personal perspective; (2) a description of the current state of Southern regional economics, again, from a personal perspective; and (3) my prescription for how Southern regional economists should finish out the 1990s.

II. REFLECTIONS ON THE PAST

The Mid-1970s

I began my career 20 years ago at the University of Tennessee in Knoxville, working full-time at the Center for Business and Economic Research (CBER), while attending graduate school part-time. One of the first people I met that first day at CBER was Professor Emeritus Ormund Corry, whom I later learned by reading Walter Isard's *Methods of Regional Analysis* (1960, 93), was instrumental as a Southern regional economist, along with economists in Alabama, Georgia, Kentucky, Mississippi, North Carolina, Virginia, and the Tennessee Valley Authority (TVA), in forming a partnership with the U.S. Department of Commerce to develop a methodology to estimate personal income below the state level. Economists in these states formed what was then called the Southeastern Income Conference, of which I immediately became a member.

I will not repeat these economists' contributions to Southern regional economics here. They are much more eloquently described in Jim Hite's SRSA presidential address in 1985 (Hite 1985). I simply note the rich Southern tradition of regional economics that I suddenly was born into on my very first day in the South as a regional economist.

My first assignment on my first day at work was to develop a set of gross state product (GSP) accounts for the state of Tennessee. Prior to that, very few states had developed GSP accounts.

There was the seminal conceptual paper on GSP estimation by John Kendrick and C. Milton Jaycox (1965). In that same year, the state of Hawaii, which after all is below the Mason-Dixon line, developed a set of GSP accounts based on the gross expenditure approach (Oshima and Ono 1965). In 1970, Professor Charlesworth at the University of Kentucky developed a set of GSP ac-

counts for Kentucky based on the income approach to gross product estimation (Charlesworth and Herzel 1970). In 1972, then professor, now Dean Al Niemi developed a variation of the Kendrick-Jaycox approach to correct for a bias in manufacturing gross product estimates. Niemi developed GSP estimates first for the state of Georgia, then in 1975 for all Southeastern states (Niemi 1971; 1975).

The reason for developing GSP estimates for Tennessee was to incorporate the estimates into a yet-to-be-developed annual econometric forecasting model of the state. Because, in 1974, very few single-state econometric models had been built, we hired as a consultant Carl G. Brooking, who had recently received his Ph.D. from the University of Pennsylvania. Carl, a native of Mississippi, had developed a single-state econometric model for Mississippi as his dissertation.

Developing the econometric model for Tennessee was to be my second assignment, and one that kept me extremely busy during the rest of my tenure at UT. The model was widely used by Tennessee state government as an input to revenue forecasts and, eventually, as input into the state budget expenditure projections. Every year we would produce an "Economic Report to the Governor of the State of Tennessee" and fly back and forth from Knoxville to Nashville on a four-seater plane briefing the State Assembly, Director of Economic Development, and other public officials.

Principal among those public officials was Niles Schoening, who has a long-standing history with SRSA and, subsequent to his public stint in Nashville, returned to the University of Tennessee to pursue a Ph.D. in regional economics.

When it came time to write a dissertation, all of my colleagues naturally assumed that I would write about state econometric modeling—still a very infant field in regional economics. Having spent 40-plus hours per week collecting data, maintaining the database, and reestimating the model's equations, and doing baseline forecasts and policy simulations day after day, somehow I couldn't bring myself to have fun with what I had made my living on. So I searched for another topic.

The Late-1970s

That was in 1976. The U.S. economy was just recovering from another recession, and professional economic journals were replete with articles on regional cyclical instability and related regional phenomena such as diversification, growth, and city size. An article that particularly excited me was one by Mike Conroy (1975) at the University of Texas at Austin. Mike adopted the portfolio variance, a measure from financial/investment analysis, as a measure of regional industrial diversification/cyclical instability.

His results seemed much more encouraging than those in the past, so I began to read everything ever written about regional business cycles, regional cyclical instability, industrial diversification, growth, city size, and related articles. Beginning with the seminal works of Rutledge Vining (1946) and Wilbur Thompson (1965), my search took me back as far as 1930, when Glenn McLaughlin (1930) wrote an article titled "Industrial Diversification in American Cities." Seems there was regional economics before there were regional economists.

Then in 1938, there was an article in an English journal titled "Unemployment and the Diversification of Industry" (Tress 1938). Tress, writing about the unemployment problems in Great Britain during the Great Depression, wrote:

Since the last depression, considerable prominence has been given to the idea of preventing unemployment through some form of diversification of industry . . . An area, in which a large fraction of those employed are engaged in a single industry, does run a grave risk that sooner or later it will be confronted with a heavy unemployment problem . . . the effect on any area is likely to be greater, the greater the number of employed persons in that area who are dependent on that industry (Tress 1938, 141).

Tress concluded, then, that the greater the variety of industries located within a region, and the more equal the distribution of employment among these industries, the less risk of severe overall economic decline within a region.

Being a student of international economics, as well as regional economics, I noted in my dissertation that:

Is [Tress's] theory not, however, in direct conflict with the theory of international/interregional trade, wherein industrial specialization has long been venerated as the key to maximum economic growth? . . . The assumptions of the Heckscher-Ohlin model of trade for two countries and two goods leads to a situation where production of both goods occurs in both countries, and, only under the most perverse set of circumstances (where there is an extreme difference in the factor endowments of the two countries, or where production techniques are identical), is complete specialization implied (Kort 1979, 27).

I go on to cite Eli Heckscher in a 1919 article titled "The Effect of Foreign Trade on the Distribution of Income" (Heckscher 1919). Later studies (Rodgers 1957) showed that, if diversification of a region was at odds with the specializa-

tion advantages of interregional trade, it would be expected that the most diversified regions experienced the least growth and, in fact, Rodgers found that such was not the case—there was no set pattern between diversification and growth.

My foray into the regional cycle literature thus took me back to many Southern economists—Vining, McLaughlin, Thompson—who contributed to regional economics long before it was "invented" as a discipline. It also pointed out the interdisciplinary nature of the field, having to make sense of the juxtaposition of international trade theories with those of regional economics. The latter point was made by Paul Krugman (1991) at last year's North American Regional Science Association meetings.

I finished my dissertation in 1978 and was hired by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, to assist in developing the nation's first multiregional bottom-up/top-down annual econometric forecasting model, known then and now as NRIES. I began this assignment during President Carter's administration when regional economics was hot. The visibility of regional economists in the federal government was especially high in 1979: Hugh Knox at EDA; Norm Glickman consulting for HUD, HHS, and BEA; Ken Ballard, one of Norm's students, at BEA; Dan Garnick, Lowell Ashby, and Ray Grimes at BEA; Ted Trott, who for many years stubbornly pushed to complete the official set of U.S. GSP accounts for all states, at BEA; and students of Roy Bahl—John Ross at HUD, Dick Gustely at BEA, Dave Bjornstad and Dave Vogt at Oak Ridge National Labs, and Jim Eblen at TVA. I'm sure I'm missing many; these are just a few examples of those I had the privilege of working with.

Similar to my experience at Tennessee with Professor Emeritus Ormond Corry, there was a mystery man at BEA whom I knew little about. His name was Sang O. Park. I rarely saw Sang; he came and went unnoticed, and I wondered what he did behind closed doors for the first several years I was at BEA. One day, I asked Ray Grimes what, exactly, was Sang O. Park's assignment. Ray indicated that Sang was placed in charge of developing personal consumption expenditure (PCE) accounts for every state in the nation. I was excited about learning of the project and looked forward to the day when Sang would open his door and announce that a consistent set of PCE accounts had been developed for all states.

That day never came. Just as Sang slipped in and out on a daily basis, so too he slipped permanently out of BEA to teach at some university, still unknown to me. As a Southern regional economist, having been a latecomer to the seminal work of Ormund Corry et al. on substate personal income estimation, and having struggled in the mid-seventies with putting together the first set of GSP accounts for the state of Tennessee, I was disappointed that not one final estimate of PCE for one state was ever published at BEA or anywhere else for that matter.

The 1980s

The 1980s—the so-called greed decade—was the decade of Reagan domestic spending budget cuts, defense spending increases, and, to my dismay, an outflow of regional economists from the federal government. Dick Gustely and Ray Grimes went onto universities, Lowell Ashby and Dan Garnick retired, Norm Glickman went onto the University of Texas, and Ken Ballard moved to the West Coast to work for a private utility company.

Hugh Knox, however, came to BEA to head up, initially, the Regional Economic Analysis Division. Under Hugh's guidance, regional econometric and input-output work at BEA flourished, despite significant reductions in staff and a waning interest in regional economics by the Reagan administration. We continued the development of both the NRIES econometric and the RIMS input-output modeling systems, keeping abreast of the current state of the literature, attending professional regional economics conferences, both the Southern and North American, and retaining BEA's reputation for fine scholarly work in regional economics.

One of the topical areas that BEA regional economists did not advance in is Computable General Equilibrium Models (CGE's). CGE's were and are said to be one the slickest modern tools of the microcomputer era of Southern regional economics. CGE's have many proponents among our ranks. It has been said that CGE's are wonderful tools because they don't require data to do microcomputer simulations; one simply needs to make assumptions about the possible levels of the data, and the CGE predicts the local economy.

Quoting Higgs et al. (1988):

The implementation of a multiregional, multisectoral (CGE) model requires a full multiregional input-output database with interregional trade flows disaggregated by sector- and region-specific user as well as by commodity class and regional source. Such data are not available for most countries.

Recognizing, rightly or wrongly, that sound regional analysis requires a fundamental, consistent, defensible database, BEA regional economists never pursued CGE modeling.

Rather, through most of my early years at BEA, as before, my principal assignment was to build, maintain, and further develop regional econometric models. Yet, the vast majority of my professional experience during the *eighties* outside the office was in writing and reviewing articles on regional cyclical instability and industrial diversification. I had developed such a complete file of

published and unpublished works that it made sense to put them all together as an anthology to that literature. I did so and presented that paper two years ago at these SRSA meetings.

III. THE CURRENT STATE OF SOUTHERN REGIONAL ECONOMICS

The Early 1990s

One of the bright spots of the Reagan-Bush era for BEA came in the form of what was called the Boskin Initiative. As the Chair of Bush's Council of Economic Advisers (CEA), Boskin recognized the decade of underfunding of federal statistics programs. In its fiscal year 1992 budget submission to Congress, the Department of Commerce stated:

During the 1980's, economic policymaking became increasingly challenging. Accurate measurement of the economy and of economic activity, always important, became even more critical. BEA is one of the principal federal agencies that provide (sic) economic statistics . . . The President, acting on the recommendations of the Economic Policy Committee, approved a multi-year initiative to improve economic statistics (U.S. Department of Commerce 1992).

Among the initiatives proposed were satellite accounts for pension transactions, a satellite account for natural resources and one for pollution abatement and control, and a new survey on international trade in financial services.

Recognition of the inadequacy of our data and measurement procedures continues with the current administration. Now called the "Economic Information Infrastructure Initiative," the proposals for next year's budget, as submitted to Congress, are (1) improve the timeliness and accuracy of the national income and product accounts (NIPA's) and related data and improve the measurement of services and international trade; (2) begin to incorporate issues such as environmental accounting, international competitiveness, R&D, and health policy into the statistical system; (3) reengineer the data-handling process with more processing, electronic reporting, and distribution; and (4) disseminate information on our nation's emerging "electronic information highway."

Note that except in a passing reference to NIPA "related data," absent among the most prominent proposals is any initiative in regional economics. Yet, in all my tenure at BEA, I have never witnessed an administration or the policymakers

in the Department of Commerce to be more regionally oriented than these current folks. There is daily (sometimes hourly) focus on the economy of some region of the country. We've gone from a regional economic task force on the Midwest floods in the spring of last year to a multi-agency task force on the economy of California, both last year and this. We're currently providing input into the nine citywide potential impacts of World Cup Soccer at the request of department policymakers.

The thirst for data on states, counties, cities, and regions on the part of policymakers in the department and the White House has never been this insatiable. Indeed, I know I have never been as busy providing regional economic data and analysis to policymakers as I have this past year and a quarter. Why, then, is there a lack of proposals put forth on improving regional economic data?

First, I suggest that many of the proposals for improving our nation's statistical system stem from cooperative research between researchers in the academic world and those in governments. As BEA investigates the proposed new System of National Accounts, it is borrowing from the academic world when and where it can. For example, within the national accounts area, Robert Eisner, Northwestern University, was a consultant on the accounts at BEA for a period of time. While such cooperative research in an atmosphere of declining budgets both within the government as well as in universities is difficult, we should not let that deter us from at least trying.

Second, I suggest that there have been very few proposals for cooperative research between government and university researchers in the field of regional economics in the 1990s. While regional economists in the government are busy trying to hold on to existing programs and resources (rather than expanding into other areas such as the development of "new" databases), regional economists at universities are busy trying to uphold the level of sophistication of the profession by building ever more complex microcomputer simulation models that take us farther and farther from the real world.

The joint research project between Mike Greenwood and the Census Bureau to investigate the possibility of using economic/demographic modeling for regional population projections is the only such cooperative effort that comes to mind. Very few, if any, projects have dealt with improving our regional economic databases.

IV. WHAT OUGHT WE BE DOING FOR THE REST OF THE 1990s?

What should we, as Southern regional economists, be doing to assist our nation's policymakers in improving regional economic analysis for the remainder

of the decade? I call for us to put down our mice and reflect on the fine Southern tradition that Jim Hite so eloquently recalled in 1985. It's time to resurrect the Ormond Corrys among us and get back to fundamental research on building the foundation of the nation's emerging information highway. That foundation is indeed the data (information) that we and policymakers desperately need to assess the state of our subnational economies.

George Treyz of REMI can tell you how many phone calls we have traded over the years on users calling for state-level investment data that still are not there. As I began formulating my theme for this paper, I was going to use as an example a phone call that I received a month ago from a doctor in a diabetes treatment facility in Massachusetts. The doctor insisted that because I was the Chief of the Regional Economic Analysis Division, and because there was no other division in the federal government like it, I must therefore have PCE for cities for cultural events. "Personal spending on cultural events by city," I said, "we don't even have *total* PCE for a *state*."

That was a month ago. Now, as I actually write this section of the paper, I was just interrupted by another phone call from a regional economist in ERS at USDA, who, like the doctor, insisted that I must have PCE for states. I again indicated no.

V. CONCLUSION

I began this paper by reflecting on the fine Southern tradition to which I was introduced in Tennessee 20 years ago. Those were some of the best years of my life—traveling around the South to Florida, Alabama, Georgia, Arkansas, Kentucky, Mississippi, North Carolina, and Texas and meeting many of the South's pioneers in regional economic research. Many of them were ready to retire back then; some, like Professors Corry and Charlesworth, have passed on.

What they instilled in me, and what the South as a region instilled in me as a regional economist, is the necessity of "knowing your region." As Jim Hite explains, the necessity of knowing your region was particularly highly valued in the South, primarily because of the need to enhance economic development in a region where the per capita income relatives have been consistently below the national average (Hite 1985, 9).

If my position in this organization was one of substance, rather than one of ceremony, I would call for the formation of partnerships among the various universities and government agencies represented here to return to the traditions of the Old South and begin cooperative research on constructing the basic building blocks of at least our region's economies. Those building blocks are basic

regional economic data. I would insist that we complete the work of Sang O. Park in constructing PCE accounts, at least for states. I would push for more data on interregional trade flows, on foreign exports and imports by state, and on investment. I would suggest that we use mice not for driving microcomputer simulation models that require little data, but rather that we use them for building more and better databases.

Because my position *is* one of ceremony, I can only ask that we ignore our basic instincts and be reflective of what unique contributions Southern regional economists have made in the past and have enough reverence and wisdom to continue that tradition.

We *will* continue that collegial tradition immediately following this luncheon in a session chaired by Ted Trott of BEA, where past officers of the Association begin debate on the efficacy of re-forming such a government-university partnership in the South.

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