

AROUND THE STATES

TENNESSEE

Industrial Renaissance

EDWARD J. WALSH

Americans who worry about the future of the nation's manufacturing base might take a look at the economy of Tennessee under its governor, Lamar Alexander. The three largest industries of the Volunteer State—textiles, clothing, and chemicals—have been deeply hurt by import competition and together have lost more than 27,500 jobs since 1981. Yet despite these troubles, the state has enjoyed a net gain of 36,000 manufacturing jobs since the beginning of 1983. Unemployment has fallen from more than 14 percent in February 1983 to 7.1 percent in September 1985.

Tennessee received considerable publicity last July when it won perhaps the most sought-after industrial investment in American history. Thirty-eight states competed for the production site of General Motors' new Saturn subcompact—a manufacturing complex that will employ 6,000 workers, with another 20,000 jobs to be created by suppliers, and which will involve an estimated investment of \$5 billion. The Ohio legislature recruited thousands of schoolchildren to write letters to GM chairman Roger Smith. Missouri placed billboards along Detroit highways. Nineteen governors visited GM headquarters to plead the merits of their states. Lamar Alexander made no such pilgrimage. Yet GM announced it would build the car in Spring Hill, a tiny community 30 miles south of Nashville.

The Saturn plant is only the most dramatic symbol of the Volunteer State's industrial renaissance. Bendix opened an auto parts assembly plant in Gallatin last July; it will employ 200 people. Control Data is building a \$10 million office complex in Chattanooga to offer business services to entrepreneurs. Sundstrand, a leading maker of hydraulic power systems, will establish a new operation in Selmer in west Tennessee. More than 22,000 new jobs were created at 109 new manufacturing facilities and 253 plant expansions in 1984. The first half of 1985 saw another 96 expansions and 50 new plants.

For much of its history, Tennessee was known as a state of backwoodsmen and hardscrabble farms, and its poverty in the 1930s led to Franklin Roosevelt's creation of the Tennessee Valley Authority (T.V.A.) to provide the region

with federally subsidized electricity. In the decades after World War II, the state attracted textile mills, shoe factories, and other low-wage plants employing unskilled and semi-skilled labor, many of them transplanted from the Northeast. A high-tech corridor between Oak Ridge and Knoxville also began to develop, encompassing the Oak Ridge Nuclear Laboratory, the T.V.A., and the University of Tennessee, and drawing on the skills of 2,000 scientists and engineers. Today, 27 percent of the state's work force is employed in manufacturing, compared with 19 percent nationwide.

The present wave of industrial investment represents yet another evolution of Tennessee's economy. Using the catchphrase, "Tomorrow's jobs at today's values," Governor Alexander has turned the state's emphasis away from low-wage production. Instead, since becoming governor in 1978, he has transformed Tennessee into a mecca of entrepreneurial energy that blends high technology with traditional manufacturing, especially in durable goods. He has achieved this through a policy combination of low taxation, rising educational standards, and aggressive recruitment of new investment, especially from overseas.

Courting the Japanese

A major element in Tennessee's economic renaissance has been Governor Alexander's successful courting of Japanese firms. In the years 1974-1980, Tennessee was a low sixth of six southeastern states in growth of foreign direct investment. But by 1985 Tennessee had attracted 13 percent of all Japanese direct investment in America, more than any other state. Thirty-two Japanese companies now manufacture in the state, including Nissan (trucks and subcompacts), Toshiba and Sharp (color TVs and microwave ovens), Bridgestone (tires), and Matsushita Seiko (ceiling fans). Together they have invested \$1.1 billion in the state, and employ 7,000 Tennesseans. Soon they will be joined by Komatsu, the world's second-largest maker of earth-moving equipment, which will be building its first U.S. plant in Chattanooga.

Like most manufacturers that locate in the Southeast, the Japanese desired a low-tax, weak-union environment. Tennessee has preserved its historic credentials on both counts. "No tax is a good tax," says Governor Alexander. The state boasts the lowest per capita tax burden in the Southeast, with state taxes amounting to only five percent of personal income in 1984. Spending has similarly been

EDWARD J. WALSH is vice president for research at the United States Business and Industrial Council in Nashville.



**Lamar Alexander is taking Tennessee's
turnaroud in stride.**

kept under control, although the state's budget surplus (\$124 million in Fiscal Year 1985) may soon erode as the result of a court order to reduce overcrowding in its prison system. Governor Alexander has felt compelled to propose a five-cent increase in cigarette taxes to help finance new prison construction, but to achieve greater cost-efficiency, he is also considering turning prison management over to a private company, the Corrections Corporation of America, based in Nashville.

In seeking investment, Governor Alexander proudly points to Tennessee's right-to-work law, which prohibits compulsory union membership. Like much of the South, the state is generally inhospitable to union organizing campaigns. Unions won only 246 of 623 certification elections, or 39 percent, from 1979 to 1983. During the same period, organized labor lost 63 percent of 61 decertification votes.

But Governor Alexander learned that Japanese executives of both service and manufacturing firms want more than pro-business state and local governments anxious for jobs. They are also looking for down-home values of integrity and reliability and a work force deeply rooted in its community. So he has also stressed the strong sense of history and place in Tennessee, a state whose citizens revere their heritage (Governor Alexander is himself a seventh-generation Tennessean), where every county has at least one Civil War monument and every high school student knows of his state as home to three Presidents. Like

no other Americans, Tennesseans identify themselves as from "east," "west," or "middle," and with their home county, as if the geographical references convey the deeper essence of who they are.

There is another element to this localism and sense of history—a deeply inbred mistrust of change that has helped consign the state to the economic backwardness that afflicts much of the rural South. Illiteracy, underemployment, and rural poverty are the consequences of traditionally undernourished school systems, and today only 55 percent of the state's labor force are high school graduates. While courting Nissan and other Japanese firms, Governor Alexander realized that a new manufacturing environment in Tennessee required a work force better trained for industrial jobs than the generations of unskilled and semi-skilled workers who toiled in textile mills and other low-wage factories.

His solution has been an ambitious program to elevate the quality of Tennessee's schools. To boost morale among teachers, he has introduced substantially higher pay for "master teachers" who remain in teaching for 13 years and excel in examinations and peer reviews. Schools will be expected to teach every child basic computer skills by the ninth grade, and math and science requirements for high school graduation have been raised. It is an expensive program, and in 1984 the state legislature appropriated \$1 billion for three years to improve the school system. But Governor Alexander thinks it is a necessary investment.

The business culture Governor Alexander is advertising to potential investors is thus a new blend of traditional cultural values and old-fashioned boosterism, complemented by high technology and better education. The strategy has worked in some parts of the state better than others. Unemployment in the Nashville area is only 4.3 percent, but it exceeds 20 percent in two rural counties (11 counties had 20 percent or higher unemployment rates in 1983). And the state is still vulnerable to fluctuations in the business cycle: the number of manufacturing jobs declined in 1985, though the loss was much smaller than the remarkable gains of 1983 and 1984.

Alexander's Ragtime Band


Lamar Alexander, 45, is a moderate Republican in the tradition of former Senator Howard Baker, whom he served as a legislative assistant in the late 1960s. He returned to Tennessee to manage the gubernatorial campaign of Winfield Dunn, who became the state's first Republican governor in 50 years. After trying unsuccessfully to follow Mr. Dunn as governor in 1974, Mr. Alexander was elected in 1977 after a campaign against Knoxville banker Jake Butcher that included walking 1,022 miles across the state, wearing a red plaid flannel shirt, and accompaniment at rallies by an "Alexander's ragtime band" of washboard bangers. The campaign suggested a touch of Jimmy Carter populism, at least as much as could be detected in a Vanderbilt-educated lawyer from east Tennessee. Mr. Carter had carried the state by a huge margin in 1976.

Governor Alexander also credits President Carter for advice he gave at a White House dinner in 1978. "Go to Japan," he told the nation's governors, who were worried about import competition. "Make them build it here."

The approach has worked so well for Tennessee that Governor Alexander recommends it for the entire nation. "We have two choices," he says of regions with troubled industries. "Straight-out protectionism, which means we can't compete; or we can shape up for world competition by letting the states create a good economic environment. Protection is narrow and defeatist, the approach of the Labour Party of Great Britain. I think we're better than that. A new trade policy would begin with getting our house in order. That means better management, new labor agreements, and education, including the teaching of foreign languages. Congress could help by cutting our \$200 billion budget deficit."

Mr. Alexander is sensitive to pressures from Tennessee companies facing foreign competition. He points out that he complains about Japanese non-tariff barriers to Tennessee-made goods on his visits to Tokyo—he has made seven. But he declines to criticize President Reagan's refusal of import relief to the shoe industry, although Tennessee is the nation's fifth-largest shoe-producing state. "A lot of families are hurt by jobs lost to cheap foreign shoes. As a start, we've got to do more to help train those people for new jobs. That's difficult, but not unusual, since about 10 percent of all Tennessee's workers take a new job every year anyway."

Governor Alexander's economic success tags him as a political comer. A week after the Saturn announcement, he was elected chairman of the National Governors Conference. As his second and final term draws to a close in January 1987, there is speculation that he will either accept the presidency of the University of Tennessee or run for the Senate against Democrat James Sasser. He is also sometimes mentioned as a candidate for Vice President.

In the meantime, Tennessee is showing the world that American manufacturing is still strong and vigorous. And the resiliency of its economy should give inspiration to other regions whose most important industries have similarly fallen on hard times. 

MASSACHUSETTS

Swamp Politics

JOHN GIZZI

All too often, well-intentioned environmental regulations end up damaging, not protecting, environmental values. A case in point involves an unsightly swamp in southeastern Massachusetts, where a developer's proposal to build a shopping mall and simultaneously invest in improved environmental conditions is being derailed for political reasons by the regional office of the Environmental Protection Agency (E.P.A.).

Legislation enacted in 1977 to protect America's wetlands arose out of public concern that these valuable resources were disappearing. Wetlands make an important contribution to our ecosystem. They act as pollution filters for the purification of contaminated surface waters; as recharge areas for the protection of groundwater supplies; as storage areas for flood control; and as habitat for a wide variety of fish and wildlife, such as ducks and geese. But from the 1960s to the mid-1970s, uncontrolled business and residential development resulted in the needless destruction of thousands of acres of valuable wetlands. Other wetlands were deteriorating, in some instances drying up, as a result of natural succession—with no money and no plan for enhancing and saving them. The enactment of the Clean Water Act of 1977, especially its Section 404 dredge-and-fill program, was aimed at bringing this situation under control.

But as so often happens in government, the purposes of regulation are quickly subordinated to ideological pressures, commercial interests, and political favoritism. In the case of southeastern Massachusetts, environmental groups, and an E.P.A. regional administrator have been willing to sacrifice the quality of wetlands for the sake of a larger political agenda—undermining President Reagan's environmental policy. And they have joined in an unlikely alliance with special business interests, using environmental laws to keep out business competition.

The case concerns a two-year effort by the Pyramid Companies to improve a region's wetland resources while developing a regional shopping mall in Attleboro, Massachusetts. Pyramid is the largest shopping center developer in the Northeast, having built 38 shopping centers throughout New York and New England. Pyramid's efforts have created more than 11,000 jobs and over \$5 million in local tax revenues. Existing Pyramid projects generate a total of more than \$500 million dollars in retail and service industry sales annually in the frost belt.

The company has built a reputation for responsible development. Pyramid's track record includes the development of 10 super-regional enclosed malls in harmony with some of the strictest environmental laws in the nation. A recent example is Pyramid's Crossgates Mall, just outside of Albany, New York, where the company built a one million square foot facility in upstate New York's valued "Pine Bush" area, home to the endangered Karner Blue butterfly, as well as successfully dealing with complex traffic and water quality issues. The mall opened with a March 1984 ribbon-cutting ceremony, during which Henry Williams, New York State Department of Environmental Conservation Commissioner, applauded Pyramid's efforts to protect the environment. In Utica, New York, the company improved a degraded wetland area and created a new 150-acre wetland wildlife refuge which was deeded to the town of Kirkland to remain wild forever.

As Pyramid's New England development partner, John Bersani, put it, "Our philosophy is simple. Plan a project so that an area's environmental quality and its economic vitality can co-exist. With today's technology, there's no need to compromise the environment in the name of progress."

JOHN GIZZI is a political reporter for Human Events.