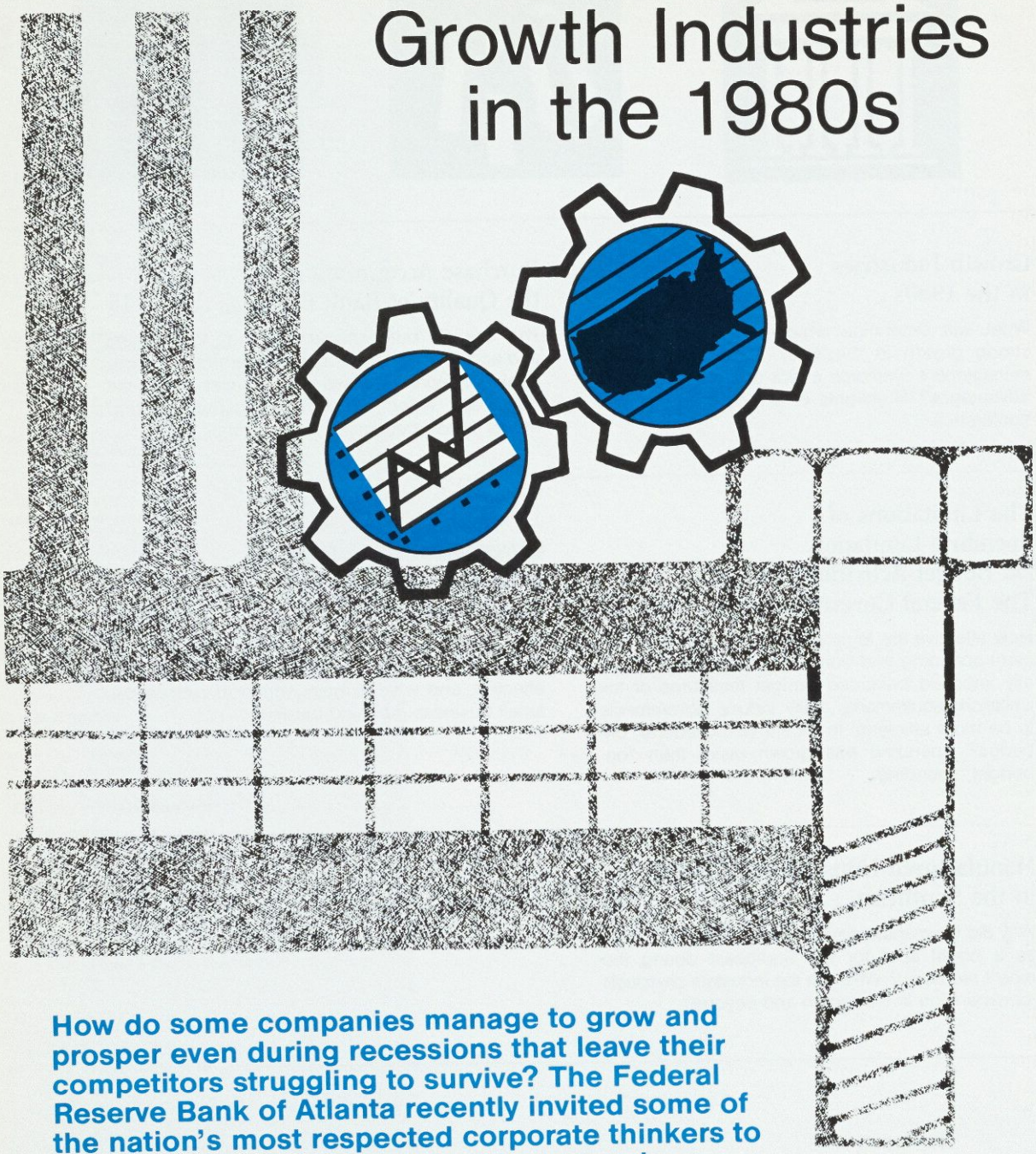
Growth Industries in the 1980s



How do some companies manage to grow and prosper even during recessions that leave their competitors struggling to survive? The Federal Reserve Bank of Atlanta recently invited some of the nation's most respected corporate thinkers to share their ideas on how growth companies are able to transform opportunities into bottom-line profits. Here's a look at what they had to say.

What's the secret to corporate growth?

Business people came from as far away as California seeking insight into that question as the Federal Reserve Bank of Atlanta sponsored a March conference on "Growth Industries in the 1980s."

Encouraged by an economy that appeared to be gaining strength after a trying recession, more than 200 chief executive officers, corporate planners, financial executives and journalists turned out for the two-day session at the Atlanta Hilton. Although most hailed from the Southeast, some signed in from as far away as Los Angeles, Chicago and New York.

The conference, the Atlanta Fed's fourth on major economic issues, challenged registrants with the question of how to achieve growth in a world of dramatically changing markets.

How is it, questioned Atlanta Fed President William F. Ford, that some firms manage to achieve growth even during recessions when their less fortunate competitors are struggling for survival? What is the alchemy that permits some firms to transform dross into gold—or, to put it into business terms, how do they capitalize on opportunities and convert them into corporate success?

"Some people used to say that all it took was a location in the booming Sunbelt" to achieve growth, Ford noted. "Tell that to some of the steel companies around Birmingham, or to the homebuilders in South Florida—or to some of the hard-pressed textile and forest products firms right here in Georgia."

Atlanta Fed Board Chairman William A. Fickling, Jr. explained that the central bank considers itself a logical forum for such significant economic questions of concern to the businesses within its Sixth Federal Reserve District.

He noted that the Bank had sponsored conferences on the future of the financial services industry and of the U.S. payments system in June 1981, then followed with a conference in March 1982 on "Supply-Side Economics in the 1980s."

The growth industries conference, he added, "should prove a worthy successor to the supply-side gathering."

Donald L. Koch, the Atlanta Fed's director of research, characterized the conference's central questions as critical ones for a nation whose economy is growing at only marginal rates.

"At such a time, it is vital in terms of national policy that we learn to identify and to stimulate the sectors of our economy with the potential to provide the largest share of jobs and make the greatest contribution to GNP," Koch said. "How do we, as a nation, identify and encourage the high-performance sectors likely to make significant contributions to our national economic health?"

To address such issues, the two-day event brought together some of the nation's leading thinkers on the subject of growth and corporate success.

Leading off the first panel—on "key growth characteristics"—was Mancur Olson, a professor

Session I:
Key Growth Characteristics

Welcoming Remarks
William A. Fickling, Jr.
Chairman, Board of Directors
Federal Reserve Bank of Atlanta

Moderator:
Donald L. Koch
Senior Vice President and
Director of Research
Federal Reserve Bank of Atlanta

The Ideal Environment for Nurturing Gowth
Mancur Olson
Professor of Economics
of Maryland

Why Growth is Important
Arthur Levitt, Jr.
Chairman
American Stock Exchange

Conference Purpose and Overview
William F. Ford
President
Federal Reserve Bank of Atlanta

What the Investor Looks For
A Panel Discussion with:

Tom Griffin
Chairman
C.T. Management Ltd.

Stephen Lieber
President
The Evergreen Fund

Edward Mathias
President
T. Rowe Price

Management Excellence and Growth
Robert H. Waterman, Jr.
Author
"In Search of Excellence"

"How do we, as a nation, identify and encourage the high-performance sectors likely to make significant contributions to our national economic health?"

—Donald L. Koch

of economics at the University of Maryland and author of a recently published book called **The Rise and Decline of Nations.** According to his premise, mature institutions— as well as mature industries and geographic areas of our own nation—find themselves at a surprising disadvantage in competing against less experienced nations, companies and regions.

Olson cited the emergence of aggressive new industrial nations such as Japan, Korea and Taiwan and the contrasting economic stagnation of Great Britain.

He attributed that malaise to the fact that stable and mature nations such as Great Britain have had time to accumulate a host of special-interest groups—ranging from trade associations to labor unions—whose lobbying or "cartelizing" efforts to help their own constituencies dampen national efficiency.

"As the group gets a larger slice of the social pie, the pie will get smaller," declared Olson. He said special-interest groups have an incentive "not to produce but to engage and persevere in distributional struggles even if the social costs are a gigantic multiple of the amount they win."

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—Mancur Olson

Newer industrial nations—or emerging industries—either haven't had time to accumulate the baggage of such special-interest groups or else those groups haven't had time to mobilize political power. In the case of nations defeated in war—or of the South after the Civil War—special-interest groups were neutralized, permitting governments and industries to start with a clean slate.

Another major conference speaker was Arthur Levitt Jr., chairman of the American Stock Exchange and a leading spokesman for growth companies as head of the American Business Conference.

From his strategic vantage point, Levitt emphasized that the United States must take a balanced approach to its industrial policy, one in which government provides the climate and incentives for growth while leaving the mechanics to the marketplace.

Levitt said government "should not plan everything for us, or abandon everything to us, but rather should practice a kind of 'climate control' to create the best possible conditions for real growth."

Noting that it is tempting to oppose any industrial policy at all, Levitt pointed out that "it is also futile, because America already has a policy of sorts." That policy, he explained, is the product of thousands of government interventions every day—"in agriculture, in shipbuilding, in defense, in regulation, in trigger pricing, even in such things as labeling and pollution standards."

He urged that the government define its central direction but, like several other speakers, warned against any attempt to create a Japanese-style bureaucracy dedicated to encouraging industrial "winners" and discouraging "losers."

"Let us target our growth," he said. "Instead of either trying to pick winners or attacking government intervention for ideological reasons, let us try to give interventions in the economy a theme and a purpose—planning for growth by removing the obstacles to growth."

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—Arthur Levitt, Jr.

Government could help, he said, by eliminating bias against savings and investment in the tax system, by increasing tax incentives to encourage long-term investment and high risks, and by supporting vocational training and worker retraining.

Levitt appeared in a session that also featured a panel of securities experts who outlined what they look for in assessing a firm's potential for investment opportunities. Panelists, chosen for

their investment track records, were Edward Mathias, president of the T. Rowe Price New Horizons Funds; Stephen Lieber, president of the Evergreen Fund, and W. Thomas J. Griffin, of London's G.T. Management, Ltd.

"It seems to us that the key and the main driving force is the need for productivity," said Griffin, offering the global perspective of his international investment firm. "The desperate need for productivity is driving both companies and governments into hard decisions."

Many industries, he said, are either in decline or, at best, static—a dilemma he blamed largely on over-expansion in the 1960s and 1970s.

"All have a desperate need for productivity," said Griffin, "some to compete and some just to stay alive." For many of these industries, he added, the threat of Japanese competition has forced change. He described Japanese businesses as "ruthlessly competitive" both among themselves and with foreign competitors.

Another powerful force affecting the growth of high-technology industries, he said, is a shortage of engineers that, among other things, "will force the major companies to locate where the engineers want to live."

Despite such challenges facing growth industries, many speakers expressed optimism over the new opportunities that often accompany those challenges. Mathias, for instance, observed that most people focus too exclusively on America's industrial problems—what they deplore as economic stagnation, a slipping competitive posture in world markets and other structural problems.

"When we delve beneath the surface, we see a different picture," he said. That picture, he said, includes the emergence of a second-tier industrial structure of largely technical new firms, oriented toward service, information processing and knowledge.

Lieber said the Evergreen Fund looks for simplicity in identifying companies likely to show strong growth. "The opportunity for consistent growth performance is greatest in the simplest, freshest areas," in his view.

Lieber said he and his colleagues analyze an investment opportunity by looking at five basic stages of corporate growth.

First, they look for "easy, straightforward growth," often characterized by a rapidly growing market or by high penetration of an incompletely exploited market.

The second key area would include companies that have added on to their product or service and "are able to consistently do that without a great variation in their service."

Lieber's third category of growth companies includes firms that broaden their field by introducing entirely new products and taking larger risks.

The fourth group encompasses companies that are able to make a large jump across fields to become leaders in more than one kind of business. Fewer succeed in this endeavor, Lieber said, but "we look at them."

Finally, Lieber examined companies faced with obsolescence, but which have achieved "diversity, breadth, and leadership." He cited Sears, Roebuck as a company that has revitalized itself from "a great, broad, and in many ways immobile entity."

Lieber said he focuses on "the risk factors," the "conceptual opportunities." The key component in a company's ability to seize those opportunities is the vitality of management. He characterized that vitality as "an athletic kind of competitive, unrelenting, well-trained, dedicated mind able to sustain excitement."

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—Stephen Lieber

Lieber cited banking as a particular industry where forward-looking management and a deregulating environment have combined to create exciting growth opportunities. The Evergreen Fund, he said, has participated with both parent companies and smaller banks in what Evergreen sees as an industry move toward interstate banking.

The conference featured two best-selling authors whose books have prompted readers to rethink their views of corporate success, or their outlook toward the broader societies in which corporations operate.

Robert H. Waterman Jr., a leading expert in business management, discussed the similarities

that he and research partner Thomas J. Peters found in a study of 42 successful American corporations. Waterman spoke of the common elements—such as an emphasis on people and a willingness to take corporate risks—that he found in successful firms as diverse as IBM, Procter & Gamble, 3M and Delta Airlines.

Waterman's book outlining his conclusions, **In Search of Excellence,** has proven a major best-seller, with 250,000 copies in print. Waterman collaborated with Peters on the book. That book "has reminded us that the best-managed American firms don't have to take a back seat to anyone," noted John H. Weitnauer, the Atlanta Fed's deputy chairman, in introducing Waterman. "That's a timely reminder we can all take to heart."

Many successful corporations exhibit what Waterman called "a funny combination" of centralized and decentralized management. They are centralized around their corporate values, and "very decentralized around everything else." Discovering the proper dimensions of this combination is where the "artfulness" of management lies, according to Waterman.

Calling his book a "study of ambiguity," Waterman described how large companies stimulate innovation by creating small working divisions. These small units also promote internal competition and what Waterman called "action devices" to "get around the bureaucratic weed patch."

Another way successful businesses short-circuit bureaucracy is by forming "adhocracies"—short-term task forces assigned to solve problems by cutting across organizational lines.

Waterman's research also found that experimentation was a common thread among top corporations. In fast-growing or emerging technologies, good market data is not always available. Innovative companies respond—just as scientists do—by experimenting, Waterman said. The development of the "zoom" lens for cameras offers an example of a product where the potential market was at first thought to be small. Experimentation showed the market to be large enough to justify further development.

Moving from the mechanisms of growth to the underlying values that sustain a corporation, Waterman noted that most companies profess to maintain some sort of central values, but only a few practice them.

"It's the fanaticism, the persistence and the high energy with which these companies pursue their values that is astonishing," he said. This persistence invariably keeps the company close to the customer, which in turn stimulates more innovation. One study showed that, of the major improvements in the scientific instrument industry, 80 percent had come from the customer.

Waterman closed his presentation by emphasizing how important people—rather than systems or machines—were to the top companies he studied. "These companies believe that productivity originates with people," he said, "and they treat individuals with respect." He cited IBM as a corporation where respect for the individual occupies a major portion of management time.

Reinforcing this conclusion were the findings from Waterman's interviews within the corporations he studied. Those companies that described their goals in terms of people and personal values performed much better in the marketplace than did those that expressed their goals in terms of earnings.

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—Robert Waterman

Another prominent author appearing at the conference was Alvin Toffler, the futurist and social critic best known for his analyses of contemporary social change. Toffler, the author of **Future Shock** and **The Third Wave**, spoke of the implications for corporate growth that he foresees in his vision of the future. In that future, he projects an information-based Third-Wave society will supplant our Second-Wave industrial society just as Toffler says the Industrial Revolution displaced the agrarian First Wave civilization.

Toffler noted that some forces—certain labor unions, companies and policies—are resisting the transition, fighting to preserve the traditional industrial economy through protectionist tariffs, government regulations, even, in some countries, actual nationalization. "There are people," as he put it, "who would really love to recreate the 1950s."

According to Toffler, those holdouts fail to see that the old ways cannot be—in fact, should not be—preserved in the face of the irresistible change he believes is already beginning to take place in societies around the globe. He urged business and political leaders not to obstruct the sweeping movement toward a Third-Wave society that he contends offers greater promise for civilization than did the Industrial Revolution.

"Rather than fighting to preserve the past, we need to face new realities," he said, declaring: "What is emerging is not an extension of the old industrial society, but a new system—indeed, a new civilization—based on principles that sometimes contradict those that we have lived with for the past 300 years." He said those changes are affecting not just America but industrial nations around the globe. What's more, he added, the transformation is not limited to economics, but includes social, political and cultural change as well.

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—Alvin Toffler

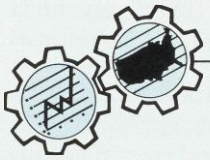
In Toffler's vision of global economics, the world is moving from a Second-Wave manufacturing economy based on automobiles, steel, textiles, apparel and rubber to a Third-Wave economy based on communications, genetics, aerospace, environmental technologies and similar high-tech activities. As the transformation takes place, he said, giant, successful Second-Wave corporations will find themselves struggling to restructure in response to their changing environment.

He cited American Telephone and Telegraph and General Motors as two corporate giants already attempting "to come to grips with new pressures and new realities." Such corporations, he noted, may face internal as well as external pressures to change their time-tested way of doing business.

What happens to employees displaced in the transition away from a blue-collar economy based on heavy manufacturing? Toffler said the problem can be dealt with, but he disputed those who say that nature should be allowed to take its course—that "an invisible hand will solve the crisis for us and all those displaced workers will get jobs in Silicon Valley." He called that a myth because the problems of unemployment are qualitative as well as quantitative.

"It's a question," he said, "of matching and changing skill requirements with a population that has to be continually retrained. Therefore, while encouraging a greater emphasis on industries of the future—optics, lasers, bio-technologies, software, video, telecommunications—he pointed out that training could prove to be the crucial factor in determining how well nations deal with the transformation.

"Above all", he said, "we must nurture new forms of education because you can't have a Third-Wave economy with a Second-Wave education system."



Session II:
Industries to Accommodate An Expanding Population

Moderator:
Gene D. Sullivan
Research Officer and
Senior Economist
Federal Reserve Bank of Atlanta

Retailing: The Impact of Computerized Shopping
Walter A. Forbes
Vice-Chairman and CEO
Comp-U-Card

Medical Services: Contributions to Growth
Ray Stevenson
President
Charter Medical Corporation

Construction: Changing Family Residences
Howard Katz
President
Ocilla Industries

The Office of the Future
Donald L. Koch
Senior Vice President and
Director of Research
Federal Reserve Bank of Atlanta

Even as traditional employers have had to fight for their lives, other firms have sprung up, or have expanded, to serve the needs of a growing population as the World War II "baby boomers" move into their most productive years of earning—and consuming.

"When you start looking at the ingredients that go into growth, you quickly find that the human element is the critical one," explained economist

Gene D. Sullivan, who heads the Atlanta Fed's regional research team and who helped organize the growth conference.

"Growth opportunities can be rare in a stagnating region where the population is holding stable, or even declining," he said. "On the other hand, the Sunbelt states of the South and Southwest have been fueled by a steady stream of migrants from less temperate climes."

Sullivan introduced a panel that included Walter A. Forbes, vice chairman and CEO of Comp-U-Card of America in Stamford, Connecticut; Ray Stevenson, president of Charter Medical Corporation, a $400 million health care services company based in Macon, Georgia, and Howard Katz, president of Ocilla Industries, a modular homes manufacturer with headquarters in New York and manufacturing operations in Georgia.

Forbes, who heads a mail-order retailing firm that enables consumers to shop via an experimental interactive sales system, said two million computer and telephone subscribers already use the service, for which they pay a fee. Those subscribers can tap into various computerized data bases that permit them to review products being offered for sale without going shopping at a retail establishment.

Through a computer terminal at home or in an office, potential customers can get up-to-the-minute information on prices and specifications covering more than 50,000 name-brand products. In just the week before the conference, Forbes said, Comp-U-Card sold via computer items ranging from stereos and refrigerators to microwaves, automobiles, crystal, silver and china.

"Within a few months, we'll begin to introduce financial services, pharmaceuticals, certain food items, travel and insurance," he said. "We're on the way, and I think it will take us only a couple of years to increase our basic products to over 200,000."

Stevenson cited the success of the health care management industry as evidence that, for organizations willing to take risks and look at old problems in fresh ways, "the opportunities still exist to combine worthwhile public service with exceptional rewards."

Stevenson noted that his industry had been relatively slow to apply sound business principles, but that the adoption of solid management tactics has inspired the industry's growth in recent years. That, according to Stevenson, has done more to revolutionalize the hospital business than any amount of new technology.

"Every other growth industry is talking about its technology," he noted. "Our technology is just good management applied to what was a far flung, dispersed and relatively poorly managed cottage industry."

Session III:
Emerging Growth Industries

Moderator:
Donald L. Koch
Senior Vice President and
Director of Research
Federal Reserve Bank of Atlanta

Electronics: High Technology is the Wave of the Future
John T. Hartley, Jr.
President and CEO
Harris Corporation

Microcomputer Enhancement: Challenges in an Exploding Industry
J. Leland Strange
CEO, Quadram Corporation and
Director, Intelligent Systems
Corporation

Automated Office Equipment: Will Rapid Growth Continue?
James L. Bast
President and CEO
Dictaphone Corporation

Growth in a Changing Future

Speaker: *Alvin Toffler*
Author
"The Third Wave"
"Future Shock"

A panel on "Management Excellence and Emerging Growth Industries" featured three chief executive officers of fast-growing firms: John T. Hartley Jr., president of Harris Corporation in Melbourne, Florida; Leland Strange, vice president and director of marketing for Quadram Corporation of Norcross, Georgia, and James L. Bast, president of Dictaphone Corporation, a wholly owned subsidiary of Pitney Bowes Inc.

Hartley, whose firm manufactures high-technology communication and information-processing equipment, discussed electronics; Strange focused on mini-computers and telecommunications, while Bast reviewed the rapid growth of automated office equipment.

Hartley pointed out that much of the rise to prominence of the service industries was made possible by technological developments, especially in electronics.

He singled out six particular technologies he believes will be the most significant in the '80s and '90s. VLSI (very large scale integrated circuits), computer aided design, digital communications, high level software, satellite communications and light wave systems.

Hartley noted that "it takes unusual organizational techniques and organizational flexibility to manage these technology based companies." The rapid rate of change in technologies places "great stress on management techniques and means that . . . we must be very flexible in terms of our planning process and our direction." He cited the need for increased quality in math and science education in our primary and secondary education system as a key to America's ability to keep up with foreign competition in the "high-tech future."

Bast provided an interesting parallel to Waterman's findings. Even though his company specializes in office automation products, he said the secret of his success has been a focus on "workers themselves, and what they are doing and the problems they are confronted with, rather than actual hardware or products."

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—James L. Bast

The office automation industry is undergoing a transition, Bast said, from single function products (like word processors) to multiple function products and greater interconnection of devices.

A driving force behind both the people focus and the multiple use products, in Bast's view, is the changing nature of the nation's work force. Within the rapidly expanding white-collar portion of the work force, there are now about five million secretaries, 11 million managers, and 16 million professionals. Office automation is just beginning to reach the latter two groups.

Bast predicted that the office automation industry "will quickly move everyone to multi-function work stations that will combine word processing, personal computing, data processing and even voice processing." It is possible, he added, that business may see a machine capable of producing hard copy or screen copy directly from speech within five to ten years.

In spite of all the attention given to office automation, Bast said the penetration by such devices of the work environment remains low. Only 3 percent of managers today have display-based work stations; by 1986 it is anticipated that this will have increased to only 8 percent. Therefore, Bast predicted continued strong growth for the office automation industry.

Bast said he also expects that American willingness to innovate will help lead an "American resurgence" over foreign products. All of the ingredients for rapid growth are in place, he concluded, and increased efficiency, productivity, and profitability should result.

Session IV: Growth Prospects for Traditional Industries

Moderator:
William N. Cox
Vice President and
Associate Director of Research
Federal Reserve Bank of Atlanta

Apparel: Innovations That Will Lead to Growth
Thomas N. Roboz
Chairman
Stanwood Corporation

Other conference panelists spoke of the implications of growth and change to corporations at both ends of the spectrum— not only to emerging and expanding industries such as telecommunications, health care and automated office equipment,but to the traditional industries that have provided jobs and payrolls in America for generations—industries such as steel, autos, textiles and apparel.

"This era has also posed problems for our traditional industries, including those that have provided jobs and profits since the dawning of the Industrial Revolution," said William N. Cox, the Atlanta Fed's associate director of research.

"We have witnessed the traumatic market changes that have jolted such industries as auto manufacturing. And we have seen the trials of traditional 'smokestack' companies that once provided the muscle for national economic growth."

Thomas N. Roboz, a Charlotte, N.C. apparel executive who has headed major industry trade

organizations, spoke of the dilemmas facing one traditional southeastern employer that has found itself besieged by imports from lower-wage competitors overseas.

To fight back, he said, U.S. textile and apparel firms will need to automate, diversify, create export trading companies and become more market oriented. The industry can survive, Roboz said, "but it will require a blood revolution, with a lot of casualties along the way."

To fight back,...U.S. textile and apparel firms will need to automate, diversify, create export trading companies and become more market oriented

—Thomas N. Roboz

The conference concluded with a panel of leading business journalists, who offered their perspectives on the subject of growth and technology. Appropriately, one panelist—science and technology editor Richard Shaffer of **The Wall Street Journal**—delivered his speech from notes he had typed on a portable computer flying from New York to Atlanta.

Shaffer spoke as part of a panel that also featured Malcolm (Steve) Forbes Jr., president of **Forbes** magazine; James Russell, financial editor of **The Miami Herald**; and David Cook, Washington economics correspondent for **The Christian Science Monitor**.

Despite his enthusiasm for high technology, Shaffer brought a measure of skepticism with him from his New York office, warning against excessive optimism that technology can solve all economic problems. Noting that computer manufacturers haven't been immune to the recession, he observed that "high tech is as subject to the laws of economics as anything else." He questioned whether a shakeout isn't likely in portions of the computer industry, considering that 150 brands of desk-top models are now contending for buyers in a crowded marketplace.

Just the same, Cook quoted an unpublished Cabinet study that underscores the importance of the nation's high-tech industries. He said that study, dated October 1982, concluded that high-tech firms:

"High tech is as subject to the laws of economics as anything else."

—Richard Shaffer

1. Boast a growth rate twice that of the national economy as a whole, with high-tech industries accounting for nine of the ten fastest growing industries in recent years.
2. Enjoy labor productivity growth six times as great as the overall business population.
3. Showed price increases only a third as high as the nation's inflation rate over the 1970-1980 period.

Finally, he said high-tech firms since 1975 have produced a cumulative balance-of-trade surplus totaling $128 billion, while the nation as a whole was experiencing a cumulative $148 billion deficit in merchandise trade. "Even in the play-money land of Congress, we are talking big stakes," Cook observed.

Forbes noted with amazement that some politicians and editorialists have "begun to mythologize the blue-collar worker" and to lobby in favor of protection for smokestack industries just as an earlier generation sought to protect a legendary "yeoman farmer" from industrialization.

"If we resort to protectionism trying to turn back the clock, it can have serious repercussions," Forbes admonished.

"If we resort to protectionism trying to turn back the clock, it can have serious repercussions."

—Malcolm Forbes, Jr.

Russell, whose financial column is carried by some 100 newspapers around the nation, described business journalism as a "growth industry" that most daily newspapers were slow to recognize.

Session V: Press Perspective

Moderator:
William N. Cox
Vice President and
Associate Director of Research
Federal Reserve Bank of Atlanta

James Russell
Financial Editor
The Miami Herald

David T. Cook
Washington Correspondent
The Christian Science Monitor

Malcolm S. Forbes, Jr.
President
Forbes

Richard Shaffer
Science and Technology Editor
The Wall Street Journal

"The traditional American press, the daily newspaper, did not recognize it until others had exploited it," he said. "Now they are trying to play catch-up by frantically expanding their business sections."

Newspapers began to shore up their business sections eight or nine years ago, he said, when it became obvious that the economy had become a major continuing news story in the country. The economy emerged as a major story, he added, because inflation forced businesses and the American public alike to learn more about economics and financial choices.

"People had to make complex economic choices," according to Russell, "or get run over by the wave of inflation and high rates."

Atlanta Fed Chairman Fickling, who welcomed visitors to the conference, expressed hope that the interest in corporate growth that they had demonstrated by attending would be rewarded by a cooperative economy.

"Let's hope," he said, "that we are convening this conference at a time when our economy is moving into a more upbeat phase—a phase that will bring greater prosperity for the firms within our Sixth Federal Reserve District and across the nation."

—Donald E. Bedwell and Gary W. Tapp

PROCEEDINGS FORTHCOMING

Complete proceedings of the entire conference will be available later in the year. See future issues of the **Review** *for details.*