

**GUIDING GROWTH: THE CHALLENGE OF ATLANTA'S ECONOMY**  
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**Federal Reserve Bank of Atlanta**  
**To Leadership Atlanta**  
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Good morning! I'm pleased to have this opportunity to meet with you today and discuss the dynamics shaping the economic environment of our city, particularly since you are the people likely to be making the decisions that will affect its future. In your individual pursuits you represent a cross-section of the diverse elements that constitute Atlanta's economy, and I hope to be able to convey to you the unifying themes that draw a modern city, and specifically our own metropolitan area, into an economic whole. Social, cultural, and economic factors do not exist in isolation; rather, they are interdependent to such an extent that a change in one will resonate through the others. At the same time, the ability of any one member of the community to be in control of all the data helpful in making difficult choices is limited by the mass of available information. Thus as you assume your roles as the leaders of Atlanta, you should keep in mind the value of meeting in this manner with your peers and predecessors to construct the larger picture. As many details and analyses as you might derive from the immediate sessions, it is equally important to realize that this exercise is also a model for the type of information sharing that must be fostered among a city's leaders if long-range planning is to be effective.

I propose to describe first a simple model of urban economic development and then to apply the model to understanding Atlanta's situation. I will then point out what I feel to be issues of long-range concern and ways you, as leaders, might influence events so that the results are optimal.

## **The Dynamics of an Urban Economy**

Historically, cities grew up as a result of advances in technology. At first it was inventions like the plow and improved plant strains that increased agricultural productivity and freed some members of the community to apply their energies to something other than farming. This excess labor, never a very large percentage of the total populace before modern times, clustered into centrally located towns and cities. Cities were the focal points for trade, and they also served as centers of government and craft production.

In the late 1700s and early 1800s, the invention of steam-powered machinery led to an explosion of technology in both agriculture and manufacturing which freed up ever more workers and at the same time evolved new uses for their labor. When that happened, the production of goods and services began to compete with trade as the main economic function of the city. Particularly in the United State, where there was plenty of open land for building, new cities grew up around factories. As the number of inhabitants reached large enough proportions to support other types of employment, continuous work was to be found in building residences and business-support facilities and in servicing the needs of the factory owners and workers for health care, education, and recreation. All these activities created new wealth for the entrepreneurs who had gone into business to fill the demands of the marketplace. Although some of that wealth was applied directly to increased consumption, much was invested in expansion of facilities and hiring new personnel. Higher earnings, both individual and corporate, also added to the tax base. Having more money on which to operate, the local government could hire employees and purchase the necessary materials to add to the infrastructure of roads, waste disposal, and the like and to provide education and other necessary social amenities. An urban economy that could support higher education and the arts further enhanced its ability to attract high quality people to live and work there, adding further impetus to the growth cycle and to the expansion of the service sector.

Technological advances in the countryside have brought the United States in the past century from being a country where 80 percent of the labor force worked on the farm to one in which only about 3 percent of all workers are engaged in agriculture. In recent years, the increased efficiency of factory production has begun to take manufacturing the way of agriculture; that is, it now takes fewer people to turn out a sufficient amount of goods to meet the demands of the consuming public. The services have been the beneficiaries of the labor resources no longer required for manufacturing, and services are now the fastest growing sector of the economy in terms of new jobs. Advances in transportation and production techniques in the postwar period have allowed the dispersion of manufacturing out of cities to the outer suburbs and rural areas. That outward movement has contributed to the tendency for cities to have economies based more and more on services.

Along with these changes in the economic base of cities over time has come a transition in cities' geographical and political limits, in large measure due to the economic shifts. Technological advances in transportation, in particular, have had revolutionary impacts on the structure of cities. Although in their time the steamship and the railroads transformed urban-based societies the world over, in contemporary America it is the automobile that exerts the most dramatic influence. The fast, easy individual movement afforded by the automobile effectively erased the city limits as a meaningful economic and political delineation and gave rise to the metropolitan area--the city and its suburbs--as the modern economic unit. The Greek origins of the term metropolitan are literally "mother city," which conveys an apt sense of its organic nature. The cars streaming in and out of the central city during the morning and afternoon rush hours bring their occupants as if to the mother for sustenance, in this case the dollars which they use back in their malls, super markets, and medical centers to purchase goods and services. As in the growth process of the original city center, the

suburbs eventually take on a life of their own, the population nucleus reaching the critical mass that supports expansion in industry and government. Even though their inhabitants may eventually work in professional parks outside the downtown area, these satellite communities nevertheless continue to gravitate around the mother city as the source of economic and cultural influence. The symphony as well as the sports teams bear the name of the city, and the city thus remains an essential part of the suburbanite's identity.

The symbiotic relationship between city core and suburb is mirrored in the relationship between the entire metropolitan area and the world outside it. Because a metropolitan area requires things that it does not produce—most basically food—it must export its own manufactured products and its services in order to procure food along with other products its inhabitants might desire but lack the capacity to make. Most metropolitan areas are service and distribution centers for the surrounding region. Some of the most mature urban centers, like New York with its financial services, have a global constituency. You can see, then, that the economy of a metropolitan area is a complex net of dependencies with an organic unity of its own but also a role that interlocks with other units to form larger economies.

### **The Atlanta Metropolitan Area**

Since a contemporary city is more than just the downtown area, if we are to discuss business development in Atlanta we must first define what Atlanta is. The terminology that economists and government researchers use for an urban and suburban unit is the Metropolitan Statistical Area, or MSA. The Atlanta MSA includes 18 counties bounded by Cherokee and Forsyth counties to the north; Barrow, Walton, and Newton to the east; Butts and Spalding to the south; and Paulding, Douglas, and Coweta to the west. Covering 5,148 square miles—about 9 percent of Georgia's land, the Atlanta MSA was home to nearly two and a half million people in 1985. That equates to over 40 percent of

Georgia's six million people. The interlocking nature of the MSA's counties can be seen in the fact that on average 45 to 50 percent of their residents commute to another county to work.

Per capita personal income in Atlanta was about \$12,500 in 1983, \$1,000 above the Georgia average. Just as the state's personal income figures are lifted by the relatively high averages in the Atlanta MSA, Atlanta has been the "engine of growth" pulling the rest of the state to improved overall economic performance in the past several years. Atlanta's employment picture reflects the nationwide movement away from a manufacturing base and toward services. Merchandise trade accounts for 28 percent of the city's employment, services for 22 percent, and manufacturing for only 14 percent. Outside the MSA, manufacturing is still the leading employer, with 28 percent of all workers so engaged. Trade stands at 22 percent and services at 14 percent. Thus while the same three sectors rank as the top employers everywhere in the state, the areas outside Atlanta have been slower to begin the transition to a post-industrial economy and are more dependent on sources of income like the apparel industry that have proven vulnerable to foreign competition. The steady in-migration of new residents attracted to jobs in the Atlanta market has been a decisive factor in tipping the balances in favor of service industries. The results of this difference in economic bases can be seen by comparing the 2.3 percent employment growth from 1985 through the first half of 1986 in the Atlanta MSA with the 1.5 percent growth in areas outside Atlanta. Here again Atlanta's strength brings the state's average above the national average of 1.6 percent.

Atlanta's robust employment growth has been fairly evenly distributed among the various sectors and industries, attesting to the diversified economic base of the metro area. Leaders in the service sector are business, health, and personal services as well as the hospitality industry. Atlanta's diversified economic base is rounded out by other kinds of services—finance, transportation, communications, utilities, and government.

Federal, state, and local governments employ 14 percent of Atlanta MSA workers. In the rest of the state—and in general in the southeast—the average percentage of the work force engaged in government service is closer to 20 percent, and the fact that Atlanta has a relatively smaller number of government workers, even though it is the state capitol, attests to the strength of the city's private sector. Transportation and public utilities account for 8 percent of jobs. Finance, insurance, and real estate together bring the area 7 percent of its jobs.

Despite the relative importance of the service sector, manufacturing in the Atlanta MSA is also a significant dynamic force. It outperformed the rest of the nation's between 1985 and the end of the second quarter of 1986. Of the two components of manufacturing, durable goods and nondurable, it was durable manufacturing that carried the combined statistics to higher levels, as MSA employment in industries producing goods that last three years or more increased 2.8 percent while in general the nation's declined by 1.1 percent. Producers of transportation equipment—firms like Lockheed, General Motors, and Ford—contribute to the area's strength in durable manufacturing, but electrical equipment and other machinery along with glass from Owens-Illinois in East Point round out the picture. Nondurable manufacturing—a segment in which Atlanta is represented largely by printing, paper, and chemicals—was the lone part of the Atlanta economy to decline in 1985 and 1986, reflecting a general slowdown nationwide due in large measure to foreign competition. I expect that trend to reverse, by the way, as the cheaper dollar makes American goods more affordable to overseas buyers.

Aside from the balance afforded by a diversified economic base, Atlanta enjoys several advantages that contribute to its sustained vitality. One is its central location at the crossroads among the major markets of the eastern United States. The ring of cities that includes New York, Cleveland, Chicago, Kansas City, and Dallas is 14 to 16 hours away by the expressways that branch out from Atlanta, while Raleigh, Memphis, New

Orleans, and Orlando are only 8 or fewer hours distant. At the same time the city's centrality allows the speedy product distribution necessary to a wholesale transfer point, it provides a splendid vantage from which a firm can direct regional operations. For this reason, Atlanta has served from its earliest days as a transportation hub, first by virtue of its railroad service and later through its highway and airport facilities. The international link provided by Hartsfield Airport carries the city into its next level as a central commercial point. The increasing integration of the global economy makes travel from points outside as well as inside the country a daily necessity, and Hartsfield is an efficient destination point both in terms of the number of carriers offering service and the facility itself. The decision of a multinational corporation like R. J. R. Nabisco to locate its headquarters here is guided in no small measure by the presence of our world-class airport. MARTA, too, is a transportation advantage influencing the growth of Atlanta's economy. The link to the airport will further enhance the system's effectiveness in alleviating traffic congestion and moving people to and from jobs.

In addition to the cost savings represented by the city's geographic location and transportation facilities, individuals and businesses are attracted by Atlanta's climate, which makes for pleasant living conditions as well as for the economic benefits of relatively low heating costs and fewer weather-caused delays in completing construction. Yet another cost-saver is the relatively low-priced labor in the area, a result of competition for jobs among new arrivals and the region's tradition of cooperative labor relations. The city's good reputation in racial relations encourages relocation by entrepreneurial, managerial, and professional blacks who would no doubt have avoided the South in bygone days. Aside from being an expression of the humanity of Atlanta's citizens, the manner in which those attitudes permeate the business environment offers testimony to the effectiveness of the public-private partnership, a consensus between business and city government that accounts for much of the sense of direction which underlies Atlanta's development.

The continuing infusion of new blood into the Atlanta MSA feeds economic development after the fashion of the model I sketched for you earlier. Wholesale and retail trade is among the first sectors to respond to the increased demand that new arrivals generate. The construction industry is also among the primary beneficiaries, as it supplies the extra homes, offices, and stores newcomers require. At the moment, single-family construction remains the strongest portion of the local construction industry, a tendency I expect to see continued for the foreseeable future. With general business activity vigorous, the banking industry, another strong segment of Atlanta's economy, gains from its loan activities. The net result is that we maintain the growth that begets growth.

While in the next year it may not be quite as expansive as in the past, all the signs indicate that Atlanta will continue its economic advance. Bolstered by an uninterrupted stream of in-migration, our strong service and trade base join our expanding role as a financial center as anchors for growth. The number of people moving into Atlanta may also support some growth in construction of single-family housing, but probably at a slower rate than in 1986. Other types of construction will likely experience declines since occupancy of apartments and office buildings remains well below capacity. On the other hand, as I mentioned earlier, I look for manufacturing to pick up as the effects of relatively cheaper dollars take hold here and abroad.

### **Issues and Directions**

That is not to say, however, that we can be smug about our future growth and relax from the duties of leadership. The forces that set Atlanta's growth in motion were a combination of the city's natural advantages and the progressive vision of leaders who created an air transport hub and forged a pattern of cooperative race relations. A more recent example is the convention industry, which is the result of calculated risks on the

part of public policy makers and private developers who gambled that first-class hotels and meeting sites like the Georgia World Congress Center would attract sufficient business to repay their investment. There are similar opportunities awaiting decisive action, and there are other situations which, if not addressed, could retard the momentum already achieved.

There is still imbalance in the pattern of growth. The southside lags relative to the northside. The airport is, of course, the keystone of southside development, and I believe that hopeful signs like the free trade zone point to a budding boom in the area. However, we need to learn from the lessons of unrestrained growth on the northside—particularly from the choked roads and the strains put on water supplies and school systems—the value of more thorough and farsighted planning. A balance should be sought between commercial and residential property uses so that development proceeds with sensitivity to the social bonds that make up communities. Another part of the city that displays imbalance is the downtown area. Handsome hotels and even a renewed Underground Atlanta will not be sufficient to revitalize the center of Atlanta. Programs to provide a reasonable pattern of downtown housing are essential if we are to return a human touch to the midst of the glass and concrete towers at the city's core and draw the small shops and restaurants that form the nucleus of colorful neighborhoods in other urban centers. We must also press for cultural attractions like the proposed museum of science and technology and develop areas that reflect the city's unique charms. Advances in this direction would keep people in downtown Atlanta after working hours, and the presence of area natives would help promote the city to tourists. Appeal to local residents also makes it more likely that projects will be economically viable over time.

Another challenge lies in planning for future needs in transportation brought about by the growth of the metro area. Now is the time that outlying counties should be working to tie into MARTA rather than waiting until a daily traffic gridlock forces

emergency actions ten or fifteen years from now. Development of mass transportation also demonstrates awareness of the problem of air quality control that is especially important for the future of Atlanta due to its peculiar climatic conditions. North Georgia has the highest average annual number of days of air stagnation--14--in the Eastern United States caused by the Bermuda high pressure system. Our strategies for the future must take account of this phenomenon or we risk fouling our air with auto and industrial emissions and diminishing the geographic advantages I discussed earlier.

Through the efforts of its city administration and business community Atlanta is making great strides to internationalize. The interweaving of the global economy is the reality with which we contend, and, again by virtue of its transportation facilities, Atlanta is in position to become the heart of multinational corporate activity in the South. Along with this opportunity come certain responsibilities. One of those responsibilities is to equip our citizens to function in the broadening marketplace by first of all improving the general quality of basic education and second to develop the specific skills demanded in the changing economy. Although some progress has been made in raising the performance levels of our students, we are still a ways off from providing them a world-class education. Emphasis should be placed on information and technology, the central elements in the higher-wage jobs of the evolving service economy. More steps toward teaching foreign languages and culture should also be taken. Atlanta has a strong base of higher education, and I would like to see more interaction between the business community and the colleges to develop a core of business specialists with international experience, perhaps through work-study programs in the foreign offices of international firms.

Another responsibility I would like to see Atlanta's leaders take upon themselves as they push to internationalize is sensitivity to the needs of the rest of the state. Georgia outside the metro area remains at an earlier point in the transition to a post-

industrialized economy and faces the dislocations associated with that change. Through workshops and brainstorming sessions, Atlanta's leaders could share with leaders in other parts of the state their knowledge about building the infrastructure that encourages development. The public-private partnership could identify ways in which the economy of the MSA might be better integrated with that of the rest of Georgia. We read, for example, that American firms have begun to farm out basic data-processing tasks to foreign companies to take advantage of cheap labor. Why couldn't centers for this type of activity be set up in outlying areas of the state where abundant, inexpensive labor is available along excellent superhighways? Atlanta is not an island: growth in other parts of Georgia will lead to further growth in Atlanta, most directly through our roles as service center, manufacturer, and wholesaler. By the same token, stagnation in the economy of the rest of Georgia would ultimately take its toll on Atlanta's prosperity.

### **Conclusion**

I will conclude at this point, having moved from the local to the international scales of business activity. I hope that I have sufficiently emphasized the need for the contemporary urban leader to broaden his or her horizons at every level in between by learning to see the interdependence of economic activities. Between different types of business, between Atlanta and its suburbs, the MSA and the rest of the state, nation, and world we find direct and indirect linkages through which growth engenders more growth. The challenge that lies before you as leaders is to guide growth with the discipline to act in the long-term interest even when it diminishes immediate gain. Such discipline reflects the correct understanding of the market economy in which one's own self-interest is intimately tied to the development of the whole.