

Speeches

Atlanta Today: Are We Teed Up for the 21st Century?

**Remarks by Jack Guynn
President and Chief Executive Officer
Federal Reserve Bank of Atlanta
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Good afternoon. I'm delighted to be part of this program marking the 25th anniversary of the Atlanta Economics Club. Our Atlanta Fed research staff have been part of that history, participating in many ways in the organization over the years. And, of course, the program you have put together is one that is of keen interest to the Bank, as we try to fully understand the dynamics and structure of today's economy, both from a macroeconomic and a from more grass-roots perspective.

After a morning of sessions on Atlanta's past, my topic is to focus on Atlanta in the present. Since I'm sure that most of you in this room are as well-armed with statistics on Atlanta's current economic conditions as we at the Fed try to be, I'd like to dispense with that kind of recapitulation and, instead, try to lend some perspective on a larger issue--namely, how the city's current economic underpinnings position it for the next century.

Unlike the largely industrial cities of the midwest--Cleveland and Detroit, for instance--or the large metropolises like Boston, Philadelphia, New York, and San Francisco, Atlanta has long had a reputation as a commercial center, a city grown of the kind of "boosterism" that we more often identify historically with new towns and cities of the Midwest rather than the South. In many people's minds, Atlanta is also known for its social history through figures like Martin Luther King Jr., the civil rights movement, and, even earlier, the economic ascendancy of a black middle class. But, in some senses, Atlanta's many successes over the years--from its rise as a railroad interchange in the late 19th century and its landing of a Federal Reserve Bank back in the early 20th century, to becoming a truly global air transportation hub and, most recently, hosting the Olympics--have made Atlanta seem like an island of progress, both commercial and social, in a sea of traditionalism, a traditionalism that was marked by economic underdevelopment compared with the rest of the United States, as well as the negative legacy of that "peculiar institution," to borrow from historian Kenneth Stampp.

But I'd like to argue this afternoon that Atlanta's economic status today can no longer be separated from the region around it. Rather, its current performance is largely a reflection of the economic changes the region has undergone and our new, but still evolving, regional economic structure. In this sense, the phrase "economic capital of the South" really makes sense because our city's strength is one with, and rests on, the underlying strength of the regional economy. Although certain southern states are still struggling economically and there are pockets of poverty, even in the most rapidly growing states, this region has been outshining the nation for some time and, in my estimation, will continue to be the regional leader in the United States.

I will also argue that long-term growth is not a zero-sum process. From an economic development perspective, we need to move beyond a sense of chagrin whenever we hear that Orlando or Charlotte, or some other southern city, has garnered a corporate relocation or expansion that might have gone our way. Instead, we want other southern cities to do well so that we can continue to do well, too.

The National Economy

Despite the fact that my main message revolves around the relationship between Atlanta and its multi-state environs, it would be remiss of me not to say something about the U.S. economy. I acknowledge that we've seen modern-day examples of what are essentially city-states that thrive. Hong Kong, Singapore, and Monaco are three that come to mind. However, we must not forget that Atlanta--and the South--are part of a much larger economic and political union, and our city and our region would not be doing so well absent such strong economic performance in the United States as a whole.

In the past seven years, we have seen the South do well as the U.S. economy has done well. The housing industry is perhaps the most direct and obvious example: when people are buying new homes in other parts of the nation, we do well here as demand for home appliances, furniture, carpets, and other home furnishings increases, boosting our region's important lumber, machinery, and textile industries. Over the last decade or so, the auto industry has become a significant part of the southeastern economic base and one that is affected by sales nationwide, not just sales in the region. With these reminders of how our region is impacted by the national economy, let me talk briefly, then, before I focus on Atlanta as the capital of the South, about how I see the national economy at the moment and in the period ahead.

Simply stated, the current U.S. economy is very good and the outlook is for more of the same. Through a combination of good economic policy in recent years and several favorable economic "shocks," we find ourselves with a "happy" combination of good growth, low inflation, and low unemployment--the best economic fundamentals that we have seen in a generation. This environment of low and steady inflation and shrinking federal deficits has given business leaders the confidence to invest, especially in productivity-enhancing equipment. Job growth over the last five years has averaged about 230,000 per month, and good job and income growth has given the consumer both the means and the confidence to continue spending.

All of these positives come within the context of a U.S. economy that is now in its seventh year of expansion, the third-longest expansion since the end of World War II. And I think we can look at low and stable inflation as being one of the prime underlying reasons as to why we're experiencing a virtuous circle of productivity gains and growth and more low inflation. What's more, this combination of events is not just a fortuitous development that might slip away, but rather it's the result of a deliberate and sustained commitment to better monetary and fiscal policy. The fact that most of what we like about our present circumstances is endogenous, and not the result of what I prefer to call "dumb luck," gives me a great deal of optimism about the longer term. And I say that even though I'll be the first to acknowledge that we have some major challenges ahead, especially in the area of fiscal policy, as we deal with the inexorable demographic trend of the baby boom's retirement and social commitments made on the basis of a far different population profile.

While I spend much of my personal time focusing on the national economy and could go on and on on that subject, I was asked to talk about where Atlanta stands today and how well-prepared our city is for the 21st century. As you might guess from my opening comments, I think we're very well-prepared indeed.

Atlanta as Capital of the South

Let me begin explaining why I think so by talking about why I think Atlanta is clearly the capital of the South. First, we're a major population center. We're the biggest metro area in the south outside of Florida. The population of the Atlanta MSA accounts for over half the state of Georgia. Moreover, as an MSA, Atlanta is bigger than some of the states that are now being touted as having very strong growth. What those states' boosters fail to mention is that the growth they're experiencing is easier in many respects because their base is so small. Finally, Atlanta is the focal point of tremendous in-migration. I know people on the program, as well as you in the audience, are familiar with the statistics--so let me share an anecdote that symbolizes in a sense the important dynamic that in-migration provides: at the Atlanta Fed only one of our 18 economists was in Atlanta as a child, and he was only here during part of his youth.

A second dimension of Atlanta's current economic success is location. We have a good relative location in the South, as do Birmingham and Nashville and, to a lesser extent, Charlotte, among the large cities of the region today. Some cities in Florida have locational advantages for trade and tourism, the latter simply in terms of weather. These cities have become important hubs of international commerce, particularly with Latin America, and they are year-round tourist destinations. However, like New Orleans, they are just too remote compared with Atlanta to vie as diversified transportation or commercial centers.

Another factor weighing in Atlanta's favor is that we're a major education center. The importance of the three major universities located here is widely recognized, but it bears repeating because it's easy to forget that no other MSA in the region has such a strong presence of institutions of higher learning as we have with Georgia Tech, Emory, and Georgia State. The Raleigh-Durham area certainly boasts a triad of prestigious colleges, but the economic base of that MSA just doesn't compare. Atlanta also has the long-standing advantage represented by the Atlanta University complex, which covers the gamut of college disciplines, including graduate and professional schools. Did you know, for example, that the only graduate school in library and information science in the state is at Clark Atlanta? The AU schools have traditionally served as the training grounds for African-American business and professional leaders. It is true that many graduates of the AU institutions go on--or go back--to other cities around the country. Nonetheless, Atlanta has been able to keep a fair number of alumni. These individuals not only swell the ranks of the city's managerial and professional middle class but also, through their commitment to community service, promote economic development in the city's disadvantaged minority communities. As a result, the area becomes an even better place for people of any race.

The importance of transportation to Atlanta is so often mentioned that I chose not to lead off with it in this litany of the city's comparative advantages, but I'd like to add some perspective to that argument, borrowed from Rick Allen's recent book on Atlanta's history. To be sure, Atlanta is a transportation hub. Indeed, we always were, starting with the role of railroads in the city's origin, as indicated by the city's early name of Terminus. A century or so later the city was so well-known as an air transportation hub that it became the inspiration for the joke about dying and not knowing if you were going to heaven or hell until you changed planes in Atlanta. Now we're clearly the second (and by some measures, like the number of take-offs and landings, the first) busiest airport in the world. The Olympics made us look hard at the airport infrastructure and dramatically improve it for the games. It's certainly not perfect, but we have a good idea of what else needs to be done. Finally, we shouldn't overlook the importance of being at the crossroads of three interstate highway systems.

Despite the popularity of the view that the foundation of Atlanta's success is its transportation infrastructure, until Atlanta had established a respectable reputation in the course of the civil rights movement, it wasn't all that clear that Atlanta would become the capital of the South. In the '50s and early '60s, Birmingham and Atlanta were about the same size, and Birmingham had its steel industry. So Atlanta didn't become the de facto capital simply by acclamation. Business leaders and civic leaders (often the same people) worked together: As Rick Allen points out, Hartsfield built and exploited the airport as an economic development tool, and, along with Robert Woodruff and the leaders of the Civil Rights movement, made Atlanta a palatable city for investment and business development. This combination of economic luck--location, for example--and design, that is, investing in both human and physical capital to create a higher education and a transportation infrastructure, were necessary but probably not sufficient enough conditions to bring Atlanta to where it is today. Without an equal commitment to better social policy, Atlanta might be a second- or third-tier city today.

So far I've listed population, education, and transportation as factors that account for Atlanta's enviable economic status today. One factor that I have not listed is banking. I have two reasons for this omission. First, Atlanta is not really the banking center of the South. In fact, we never really were in the first place. New Orleans, seeing itself early in the century as the region's financial center, wanted to be the headquarters for the Sixth Federal Reserve District. That claim had some legitimacy, given the important role of water transportation in the economy up to the end of World War I. The Crescent City truly was the major interchange between Mississippi barge and international ocean freighter traffic, and with that came trading finance expertise. Subsequently, Atlanta may have become the largest city in the Southeast and hence the southern MSA with the largest deposit base, but interstate banking restrictions prevented all but the money center banks from achieving prominence outside their home states. State banking laws also worked against Georgia banks. Georgia was slow to allow banks to expand statewide, and then with mergers and acquisitions the advent of interstate banking left Atlanta with just one big bank headquartered in the city, that is, one bank with more than \$1 billion in assets. In the early 1980s the city had five.

However, the concerns of those who lament our lack of more Georgia-based large financial institutions are largely misguided, which is my second reason for not including banking on my list. Money flows more easily than other factors of production, like labor, to its most productive uses unless there's market failure, particularly, lack of awareness of profit opportunities in a local market. Fortunately, Atlanta's reputation, along with the computer revolution, makes a lack of awareness less and less likely.

Now I come to my last point about what makes Atlanta the capital of the South. We have become that most important of all things in the midst of this technological revolution--we are the communications center. As we know, the Turner communications organization is huge and put Atlanta in the very early lead in exploiting cable TV. Scientific Atlanta is here, too. Southern Bell is way ahead of anybody else in wireless communication, with entire countries in Latin America turning to BellSouth for wireless systems. I could go on to name many other large and many small firms in our high-tech communications sector but these selective examples should demonstrate my point.

The Value of Being Capital of the South

Clearly all these factors--population, higher education, transportation, communication--played a role in making the city what it is today. What sometimes is forgotten is that the region over the last several decades has been strengthening and, in the process, contributed significantly to Atlanta's performance. Consider migration trends, for example. Southerners flowed north from the turn of the century through the early to mid-1970s except for the migration of retirees to Florida. Then migration patterns began to shift toward net in-migration to the South. This demographic trend was due largely to a change in the structure of the U.S. economy.

In the mid-'70s, Florida became a center for business activities quite different from those associated with retirement communities. Tourism outside Miami took off,

while at the same time electronics and other so-called high tech firms that either didn't exist before the space program or had been concentrated in places like New England began to become a significant force in the state and the region's economy. In the last decade, the auto industry has begun a major relocation that has worked to the advantage of southern states like Tennessee, Alabama, South Carolina, and Kentucky. And it's not just a shift in manufacturing facilities, although I must at least mention in passing shipbuilding and textiles as examples of other industries that have taken on a new face or size in the region.

Other states in our region also put money into higher education and reaped rewards, often in the growth of the local service sector. Examples are not just to be found in the Research Triangle area of North Carolina but also in places like the University of Alabama at Birmingham, which has helped make the medical industry more important than the steel industry in that city. Other regional education complexes include the Vanderbilt-UT-Oak Ridge-TVA corridor. In addition, certain other service industries have grown, largely for reasons unique to the local economy: film and television in Florida and Georgia, tourism in Louisiana, professional services in Atlanta, and music and medical administration in Tennessee.

As a result of this diversification of the southern economy, by the 1980s the region was experiencing very high growth rates and the historic gap in per capita personal income between southern states and the nation was narrowing sharply. Certainly there were exceptions, especially Mississippi, parts of Alabama, and south Georgia. On balance, though, the region has done extremely well, as evidenced by the fact that the three states of Texas, Florida, and Georgia created over half the jobs in the whole nation in the first four years of this expansion, essentially leading the nation out of recession in the early '90s. The six states covered by the Sixth Federal Reserve District now are more than one-seventh of the national economy. I'll end this point with an old, amusing analogy: drive around Atlanta and Orlando. Then drive around New York, Philadelphia, and Newark. Then ask yourself, "Who ultimately won the Civil War?"

Don't Beggar Thy Neighbor

Clearly, this restructuring has enabled not just Atlanta but many southern cities--Charlotte, Birmingham, Jacksonville, Nashville, Tampa, Research Triangle--all to do well. The point I'd like to leave with you is that the performance we're now enjoying in this city is a cohesive process--the emerging of the South as a region where it is a good place to develop a business. It's tempting to see development as a zero-sum game. At any point, Georgia may be competing with South Carolina for an auto plant or some other new business, and only one state will win the location decision. It's natural to feel disappointed, but without strong local economies surrounding the Atlanta MSA, we could not be as strong as we currently are.

Just as the South is a good place to move a business, so too it is a good place for people to move. Migration into the South has been strong since the early '80s. While the Northeast corridor and Great Lakes states continue to grow in absolute size, they are, at the margin, losing large portions of their population to the South--particularly the young and recent college grads. So, when we talk about development strategy, in the long run we don't "lose" growth to South Carolina, to Florida, or to Tennessee. We can only lose it in that sense to Dallas or Denver, or someplace that is spatially, economically, or otherwise disconnected. As the South generically becomes a more attractive place to locate, the South, generically will find it easier to attract still more in-migration of firms and people. (In other words, economies of agglomeration will really start to kick in as we go forward.)

The implication of this relatively new relationship is that a more collective approach, not a "beggar-thy-neighbor" strategy, is the appropriate way to think about the development process. To paraphrase the old saying about General Motors, "What's good for Alabama is not bad for Georgia."

Conclusion

In conclusion, I believe Atlanta today is well prepared for the future, largely because of its fundamental comparative advantages and its location in an economically healthy region. Los Angeles grew for a long time even though its location--without fresh water and bounded by mountains and an ocean--is less than optimal for a big and expanding city. Atlanta is enjoying the same dynamics that result in above-average growth, but it doesn't have the physical constraints.

I acknowledge that we have more to do. Our transportation infrastructure is terrific in many ways, but there are opportunities for improvement--at the airport, in the realm of public transportation, and in other areas. Likewise, our higher education infrastructure is outstanding, but we have got to find a way to improve our performance in basic K-12 education. That's another speech for me, and Don Rataczak and Sam Williams will likely raise those challenges, and more, later this afternoon. I want to leave you with a sense of my overall optimism. If the city's leaders can commit to policies based on an understanding of the city's synergy with the South as a whole, as well as an appreciation for the role that investment in human and physical capital has played in bringing us to where we are today, I am extremely confident about our future.

Thank you again for asking me and my colleagues to be part of your program today.

CONTACTS

Jean Tate
404-498-8035