An Outlook - And a Look Within

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Atlanta Regional Commission Outlook 2000: Infinite Possibilities
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It’s a privilege to join you this morning for the Atlanta Regional Commission’s Outlook 2000 Conference. It’s an especially great honor to be introduced by my friend Harry West at his last annual outlook breakfast as director of the ARC.

When Harry was named ARC director in 1973, it would have taken infinite audacity to imagine the Atlanta region as we know it today. That’s not a quality many of us would associate with diligent, reserved Harry West. But Harry recognized the vast potential of Atlanta early on.

Harry, your tireless leadership over the last quarter century has indeed helped make the Atlanta region a place of Infinite possibilities. You are a true public servant, and I want to add my thanks to you for your dedication to the region.

When he signed off in 1998, Jerry Seinfeld remarked that the most terrifying words a person can hear are “Now you can do anything you want.” He was talking, of course, about infinite possibilities. Harry, now you can do anything you want; now you can tell us what you really think. (Maybe some of us should be terrified by that prospect).

Infinite possibilities are scary, of course, because they’re unlimited, because they’re infinite. Most of us would rather have a limited range of options. Most of us are willing to live with limited upside rewards because they carry with them limited downside risks.

When your options are truly unlimited, though—when the possibilities are infinite—the upside rewards and downside risks are unlimited, too. You can fail as spectacularly as you can succeed. And while it may be easier just to play it safe, sometimes you’re fortunate enough not to have that option. This is the paradox of success. It’s also where the Atlanta region finds itself in the year 2000.

This morning I’d like to offer one economic policymaker’s perspective on the principles that ought to guide some of the choices we make in the region over the next few years: that’s the “look within” part of my remarks. But because the regional economy is so closely tied to the nation’s, and because I spend so much of my time thinking about national economic issues, I’ll begin with a brief outlook.

As you probably know, our economy recently entered its 107th consecutive month of growth, surpassing the 106-month Vietnam era expansion as the longest in modern U.S. history. During this period

Real economic growth has averaged around 3.3 percent per year during the entire eight-year expansion and has actually accelerated to about 4 percent over the last three years.

New jobs have been created even faster than the labor force has grown, pushing the unemployment rate down to 4 percent, its lowest level since 1969. Also—and I think this is significant—a larger proportion of the U.S. population is working than ever before. This means that the ranks of discouraged workers—those workers who aren’t counted as unemployed because they’re not looking for work—have fallen, too.

All of this has taken place in—and I think largely because of—an environment of very low inflation: 1.6 percent as measured by the consumer price index in 1998 and 2.1 percent in 1999, the mildest consecutive years of inflation since the early 1960s.

The Fed deserves some credit for keeping inflation low, but we’ve also had some assistance. Good fiscal policy has made a difference as have favorable external shocks. And while the margin of error for monetary policymakers has narrowed significantly as Asia has recovered and energy prices have increased, the Fed has, so far, succeeded at keeping inflation under control.

Low inflation has made possible two developments that have distinguished the current expansion from previous expansions. The first is increased productivity.

Because of enormous investments in personal computers, data processing, telecommunications and other technologies, businesses are able to produce more—or to serve more clients—without adding to their payrolls. This growth in productivity allows unit costs to fall, which allows profitability to increase without an increase in prices.

Productivity growth didn’t happen overnight, though. It was actually preceded by billions of dollars worth of investments made over the course of several years. But in an environment of price instability—of high or even moderate inflation—it’s unlikely that those investments ever would have been made.

The other distinguishing feature of the current expansion is a greater capacity for entrepreneurial risk. Last week, the Atlanta Business Chronicle ran a special section on 20-somethings in Atlanta's high tech businesses. The headline was "Youth brigade taking over Atlanta tech.” Now, I think this is an exciting story, and I’m glad it’s being told. But it’s not exactly new, and it’s not exactly unique to Atlanta. Outside the United States, though, it is absolutely unheard of. And just 10 years ago it would have been unheard of here, too.

And that’s exactly the point. In an inflationary environment—even an early 1990s-era environment of moderate inflation—risks are greater. The rent jumps higher and more frequently. The real value of your savings account—the nest egg you fall back on if things don’t work out—gets smaller faster. And how are you going to raise capital when a T-bill, the safest investment on earth, offers a pretty decent return? In an inflationary environment, it’s easier just to play it safe.
So productivity growth and the entrepreneurial brio we've witnessed the last four or five years are new. But they don't necessarily mean we have a new economy. And they certainly won't remain without a sustained focus on something we've understood for a very long time: low inflation.

One other factor has helped the expansion endure. It isn't new at all, but it continues to distinguish our economy from nearly every other one in the world. I'm talking about the ability of American companies to respond to market signals ... to restructure.

I talk to lots of business and community groups around the South—it's one of the ways the Fed stays accountable and in touch—and the other day an audience member asked why, if our economy's so strong, so many of our best companies are experiencing layoffs, restructuring and all the rest. The answer is that our economy is strong because companies are able to restructure.

Throughout Western Europe, some of the best jobs at some of the best companies are being sent overseas (many to the United States) despite lingering double-digit unemployment. As I understand it, the objective of labor practices in many of these countries is to provide workers with certainty—with the assurance that their jobs and their paychecks will be there tomorrow, no matter what.

The problem is that markets offer no such assurances. And if companies are prohibited from responding to market signals, they either move someplace where they can (like the United States) or they shut down for good. The result is that if you're one of Germany's, France's or Italy's 10, 11 or 12 percent unemployed, your only real assurance is another day without a job.

In the United States, where unemployment is at a 31-year low, there are no guarantees—ever—that you'll have your job next month. Should you lose it, however, the odds are pretty good that you'll be able to find a new one quickly. But that's about as firm an assurance as you can get.

Because companies and employees in the United States are willing to live with uncertainty—because they have very little choice about it—our economy is much better positioned to respond to market signals. That's a comparative advantage that has served us well in the current expansion.

Taken together, then, the outlook for the U.S. economy remains very bright. That's good news for all Americans, of course (and much of the rest of the world, too), but it's especially good news for the Atlanta region.

We're fortunate in Atlanta to have an economy that does not depend on any single employment sector for growth. That diversity insulates us from a downturn in any one particular industry. It also guarantees that our economy nearly parallels the national economy. That's why the Atlanta region's only period of sustained job losses since the mid-1970s occurred in 1990 and 1991, during the last national recession. It's also why the projected post-Olympic slowdown never materialized: the national economy actually accelerated in 1997 and 1998, and so did Atlanta's. As long as Atlanta continues to retain and attract a broad base of employers, it should remain a bellwether for the world's most dynamic economy.

And that brings me to the inward looking part of my remarks. When companies consider relocating or expanding into a new region, they generally look for three major incentives:

First, they look at the region's colleges and universities. Higher education institutions are a critical source of talent and ideas. Second, they look at the region's national transportation networks, and particularly at its airport. It's absolutely essential that employees and products are able to get in and out of town easily.

Finally, businesses look at the overall quality of life in the region. These are the things that entice employees to relocate or—if they're already on board—to stay: the cost of housing, the quality of primary and secondary schools, the convenience of local transportation, parks, rivers and recreational opportunities...that sort of thing.

The Atlanta region has been the destination of choice for the last two decades because it offered all three in abundance. And it still does. But it's no longer a foregone conclusion that Atlanta will be the leading contender. Nationally, we face intense competition from Denver, Phoenix, Salt Lake City and Austin. And here in the Southeast, Nashville, Birmingham, Greenville, Charlotte and Raleigh-Durham have a lot to offer, too.

For Atlanta, the issue is managing our success, of making the right choices from a range of nearly infinite possibilities. I'd like to mention just two.

The first is education. Now I have no doubts whatsoever about the region's higher education institutions. Taken together, they are second to none, anywhere in the country. But it's absolutely imperative that we send them better prepared students.

It is simply unacceptable that nearly 25 percent of Georgia high school graduates require remedial education when they arrive on the state's campuses. In the first place, it diverts resources from the institution's ultimate mission, which is, after all, higher education. In the second place, it means that those students who don't go to college—who enter the work force, instead—need remedial training, too. Whether you're an employer considering a new location or a young family considering your career options, this is a hassle you really don't need.

Ladies and gentlemen, there is no good reason why this state's primary and secondary schools can't be as competitive as the rest of its enterprises. As an economic policymaker and the son of two rural Virginia public school teachers, I think Governor Barnes' education reform proposals are a solid first step toward the day when Georgia's schools join its colleges and universities as a drawing card for this state. I'm pleased the legislation is progressing, and I look forward to its prompt enactment.

A minute ago I mentioned three things businesses consider when they're looking at a region: universities, transportation infrastructure and quality of life. In Atlanta, our colleges and universities are a tremendous asset, and as I said, I think we're making a good start on primary and secondary education reform. That brings me to the other issue I'd like to discuss this morning, transportation.

In my 35 years at the Federal Reserve Bank of Atlanta, I've done a fair amount of corporate recruiting for the Atlanta region. Many of you have, too, so you know how this works. You show the CEO around the city, and you ply him with statistics on wages, income, education, demographics and all the rest. But in my experience, the one thing every CEO, without fail, wants to know is, "How long does it take to get to the airport?"
Twenty years ago, 10 years ago, even five years ago, I could have given a reasonably accurate answer for any part of the Atlanta region. Now it's a wild guess.

On the sidewalk in front of the Atlanta Fed's Marietta Street headquarters, one block east of CNN Center, there's a historical marker titled “Thrasherville: Where Atlanta Began.” It reads:

In 1839 “Cousin John” Thrasher built a settlement called Thrasherville at this then-forested site near the peg marking the planned terminus of the Western and Atlantic Railroad. This Railroad was later built by the state of Georgia to provide a link to the north for other Georgia railroads.

The marker continues:

Thrasherville, Terminus and Marthasville were the names given to the railroad generated settlement activity [that] preceded Atlanta. Thrasherville and Terminus were unofficial names. Marthasville was incorporated in 1843 and was reincorporated as Atlanta in 1845 and 1847. “Cousin John’s” settlement at this location is where Atlanta began.

Ladies and gentlemen, transportation literally put Atlanta on the map. Wouldn’t it be tragically ironic if the thing that made this city what it is today also proved to be its undoing?

Obviously, this is a quality of life issue as much as it is a transportation issue. And just as obviously, it’s one without any simple or quick solutions.

I’d like to close this morning with some thoughts from two prominent economists that—to me at least—suggest some principles.

The first is from Herb Stein, who died last September at age 83. As one of four non-Ph.D. economists on the Fed’s Federal Open Markets Committee, I always appreciated Stein’s aversion to economic jargon; he tried to make economic ideas accessible to everyone. I also appreciated his open-mindedness: he once claimed that he was a member of the “Don't Know” school of economics.

In the 1980s, Stein coined what came to be known as Stein's Law. Stein's Law says, “If something cannot go on forever, it will stop.” Now I don’t know about you, but at least once a week, I hear someone say about traffic in Atlanta, “This can’t go on forever.” Well, no, it can’t. And there are two reasons why not. The first is that the region will stop growing, that people will leave. This is, I think we’d all agree, absolutely unacceptable. The second reason is that we will begin to take action. But who, and how, and to what end?

That’s where the second thought enters, from John Maynard Keynes. Many of you will recall that Keynes established in the 1930s what came to be known as—what else—Keynesian economics. And while many of Keynes’ ideas have either been discredited or fallen out favor, he remains, arguably, the most influential economist of the 20th century.

Nevertheless, there is no arguing with this observation by Keynes: “The power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.” In a society in which labor and capital and especially ideas are completely free-flowing, I have no doubt that this is true—that good ideas will eventually and inevitably overtake vested interests.

So what are those vested interests? You know who they are: state agencies, county governments, municipal governments, developers, not-in-my-back-yard homeowners, drivers, bikers, pedestrians, you, me. All of us are vested in the future of Atlanta; all of us are vested interests.

The idea that will overtake us all is the very same one that was first conceived for Atlanta in 1947: regionalism. To me, regionalism is the act of reconciling county lines and city limits with the realities of economics. And the reality is that in the year 2000, the 10 counties and 64 municipalities that comprise the ARC are a single economic unit. Traffic in Cherokee County imposes costs on Clayton County; water usage in Fulton imposes costs on Rockdale; the loss of green space in Henry County imposes costs on Gwinnett. (I’m sure you’re way ahead of me on this.)

I don’t mean to diminish the difficulty of carrying out a political agenda to meet an economic or market directive. Germany, France, Argentina, Brazil and nearly every country in Southeast Asia are struggling to do it now. It’s hard. But if those countries are going to continue to grow and thrive and prosper, they have no choice.

And neither do we. Ladies and gentlemen, the market, the economy, is sending the Atlanta region a message, too. I suggest we listen. And then I suggest we act.

Thank you for your attention.

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