

What a Businessman Should Think about Philadelphia's Future:
Don't Overdo the Gloom

Remarks By

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At the Federal Reserve Bank we regularly hold meetings of businessmen to discuss the economy. Invariably these sessions turn into gloom and doom descriptions of Philadelphia's economic situation and future. Since we at the Fed are often asked for our views, I'm taking the opportunity to use this prestigious forum to look at Philadelphia's economic future. My message to you as businessmen is that your gloom and doom is overdone. We have problems, plenty of them. But there are some favorable signs.

The answer to Philadelphia's economic future depends on where you come out on four "versuses":

- Frostbelt versus Sunbelt
- Urban versus suburban
- Center city versus rest of Philadelphia
- Short run versus long run

Let's look at each one.

Frostbelt vs. Sunbelt

Underlying the gloom is the basic fact that Philadelphia is part of the old industrial Northeast. As businessmen you feel depressed and helpless-- depressed by loss of business to the South and Southwest and helpless in fighting the forces that produce a booming Atlanta, Miami or Houston.

You have good reason. Look at just a few figures. From 1970 to 1974, population grew just 3% in the Northeast, but 17% in the South and 20% in the West. More vividly, the average annual rate of growth in jobs between 1960 and 1975 was 10% in San Jose, 13% in Fort Lauderdale, 7% in Houston; Philadelphia eked out a mere 1%. (Incidentally, New York City actually declined.)

This has been going on for a long time--for at least 20 years--so there's nothing new at work.

Philadelphia is also hit by shorter-run ups and downs of the business cycle. When the U.S. economy turns down, we do too at about the same time, but we go down further. In 1975 we went down much further. Then, when the U.S. recovers we are slower coming back and usually don't come back as far.

This combination of long-run trend and shorter-term fluctuations shows its effects in many very vital problems. One of the most persistent is the fiscal situation. With slow growth and a lagging property tax we have a sluggish base for revenues. Yet demands for spending are high and rising as are their prices. Result: a continuing struggle against red ink. Other problems show up in unemployment, dependency rates, levels of education, per capita income, crowded housing and poverty. One study, using these as measures, indicates that of the 17 central cities suffering the greatest hardship, 15 are in the Northeast and North Central states.

So much for the past, which you know only too well. What about the future?

Let's be realistic. The long-term trend will continue. The economics of rapid growth in the Sunbelt are too strong to expect a reversal. This kind of differential growth pattern is a natural phenomenon. Industries which have a strong profit incentive to leave will continue to do so--industries which believe the Sunbelt has cost advantages for them will locate there and will expand more rapidly than in the Northeast.

Given this fact, what should you, as a businessman, do? You should not give up, for there are forces at work reducing some of the advantages of the Sunbelt. Wage differentials are shrinking. Cost-of-living differentials are shrinking. Unionization is increasing in the South, decreasing in the North.

Energy is relatively high-priced in the Frostbelt, but water--an increasingly vital resource--is relatively high-priced in the Sunbelt. Regional differences in productivity per wage dollar are shrinking. In other words, the newer areas are starting to pay the price for their more rapid growth. These trends by no means eliminate the differentials but they are discernible. You will still be swimming against the current, but the current will be less swift as time moves on.

In the meantime, you can do many things to compete. You can exert your influence to make this an even better place to live. One of the great advantages of the Philadelphia area is its relatively cheap housing, high-quality educational and medical facilities and transportation. You can capitalize on these. One recent study shows that jobs follow people, rather than people following jobs. If we can make this an attractive place for people, the jobs will come with them.

You can use your influence to stabilize the fiscal condition of the city and the school district. This may require some painful economies, but a precarious fiscal condition can drive away both business and people.

You can encourage growth of service industries. It will be difficult to compete in manufacturing, but services are growing more rapidly and show much promise for the future.

And, finally, you can encourage the development of national policies that will pay attention to regional differences. For example, there are many who are concerned with the fact that in 1978 the Federal military construction budget allocated \$333 million to the South, \$358 million to the West, but only \$48 million to the Northeast. But, beyond that, supplementing Federal government macroeconomic policies with targeted policies to encourage employment and investment are worthy of consideration.

Urban vs. Suburban

Most of the relative decline of cities comes not from competition from other regions but from the suburbs. Philadelphia is no exception.

Many forces are at work. Buildings and facilities in center city are likely to be older. A highway network reduces commuter costs. There is less dependence on the port and railroad terminals for transportation. Assembly line technology favors one-floor factories. Low-cost housing and welfare payments have attracted low-income and rural population to center city; affluent people have moved to the suburbs. As a result, social welfare needs in center city have increased and the tax base has shrunk. Underlying all this, of course, is the fact that boundary lines have stayed the same in the face of great economic change.

So it is fashionable today to talk about regionalism. If only boundary lines could be changed or accommodated to recognize economic reality... This solution has logic overwhelmingly on its side. Suburbs could then share in costs of supporting the city while continuing to enjoy services of the city. Unfortunately, logic doesn't always agree with politics. The political obstacles to uniting Philadelphia with Lower Merion or busing ghetto children to Bucks County schools are too great. Perhaps some day; not now.

But, again, don't give up hope. There are ways of moving beyond political boundaries. One solution, discovered many years ago, is the authority--SEPTA, Delaware River Port Authority, etc. The problem here is how to get regional business done and still keep the electorate in charge. Further use of the authority approach is possible, but I would be uneasy about carrying it too far.

Another approach is to take a hard look at who gets the service and who should bear the cost. Take education. This is a major city service that has

crossed boundaries. Over half of Philadelphia's educational costs are supported by the State. More and more thinking people are coming to the view that the State should support all the costs of city schools.

Finally, you, as businessmen, can play an important role in further enhancing the attractiveness of the city as a place in which to live and do business. Great progress has been made: Head House Square, Society Hill, The Gallery, Penn Center, the Chestnut Street pedestrian mall. Today it's even hard to decide which of many fine restaurants to go to before an evening at the Orchestra.

Change is happening. The political boundaries of the city, determined 120 years ago, are not likely to be changed so that the city can tap the suburban tax base. But the outflow of firms and residents to the suburbs should slow down as the amenities in Philadelphia increase and there is some equalizing of the tax base in education.

Center City vs. Rest of Philadelphia

The kinds of improvements in Philadelphia I just mentioned, however, point up another "versus," and in some ways the most difficult political and social one of all. This is an apparent split between those who promote commercial development downtown and those who press for improvements in other parts of the city. Take the commuter tunnel. The first group claims that the tunnel is good for everyone in the city. It can increase business so much that all will benefit. The second group would spend the money, say, on upgrading SEPTA or restoring dilapidated housing.

These differences might be looked at as simply commercial interests versus residents' interests. On a more sophisticated level it might be looked at as a conflict between capitalists and workers with development taking place according to who has the power and the money.

I wish I had a neat solution to it. The issue goes well beyond economics. All the economic studies in the world will not convince some groups that the tunnel is in their interests. This suggests to me that you, as businessmen, should be sensitive to the human aspects of this problem. Attention should be paid both to enhancing center city as a market place and, say, North Philadelphia as a place to live. Philadelphia can't move ahead seriously divided.

Long Run vs. Short Run

I conclude that there's good reason for some optimism. Advantages of the Sunbelt are shrinking relative to the Frostbelt. Advantages of the suburbs are shrinking relative to the city. And businessmen are not helpless to make both happen.

But when? The trends I'm talking about are fairly long term. In the meantime, a lot of people could be very impatient and depressed. There is no best way out of this dilemma; trade-offs will have to be made. For example, in the interests of rapid growth in the long run it is important to promote services more than manufacturing, that is, promote growth-industries rather than declining industries. But Philadelphia has many workers who need jobs and their skills may not always be adapted well to services and other growth industries. Since we all live in the short run, some compromises must be made; some growth in the long run may have to be traded off for jobs in the short run.

Even more fundamental is the trade-off between economic objectives and political objectives. In our long-run interests it is important to do the right economic things. If, for example, the economics of the tunnel are right, the long-run good of Philadelphia will be enhanced. Politics, however, stress the short run. This means that it will take a good deal of statesmanship on the

part of our political leaders to balance short-run votes against the long-run welfare of all Philadelphia citizens. One of the complaints I hear about Philadelphia is that business leaders and political leaders are not in sync. More recently, and one of the reasons for my optimism, the city administration is giving evidence of concern about that problem too and is taking steps to deal with it.

There also is evidence that more people see the need for long-range planning for Philadelphia and for serious discussion about Philadelphia's future. To further that interest the Federal Reserve Bank is now planning a series of forums on the future of Philadelphia to be held in the spring. These will present an opportunity for various concerned people from government, business, and civic groups to exchange views.

If all of us with Philadelphia's future as a concern can talk and plan together, the long run could come sooner than most people think.