

# BUSINESS REVIEW

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## PROPOSITION 13 AND ITS AFTERMATH



Can Philadelphia Expect  
a Livelier Economy?

&  
An Index  
of Leading Indicators  
for the Philadelphia Region

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**CAN PHILADELPHIA EXPECT  
A LIVELIER ECONOMY?**

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# COMMENTARY

## Can Philadelphia Expect A Livelier Economy?

*By Edward G. Boehne, Senior Vice President  
Federal Reserve Bank of Philadelphia\**

For the better part of the 1970s Philadelphia has experienced a declining economy. The underlying forces that brought this shrinkage about, however, are changing. Are they changing enough to make the next decade livelier than the last?

### **OLD CONSTRAINTS**

Some of the forces that have put a damper on Philadelphia's economy are well known. The national recessions of the 1970s hit this city especially hard. Philadelphia's heavy concentration of older manufacturing facilities caused bigger dips here than elsewhere. The mix of population, with its large numbers of unskilled youth and minorities, made the

local workforce particularly susceptible to joblessness. And, probably most important, the lower cost of doing business in the Sunbelt worked against Philadelphia because industry usually expands where it is more profitable to operate.

Less well known, perhaps, are Federal initiatives in such areas as tax policy, people programs, transportation, and regulation that inadvertently work against Philadelphia and other older cities. Investment tax credits, for example, which stimulate spending on new equipment, favor growing, capital-intensive industries that more often than not are located in expanding areas. Older cities, however, have a greater need to maintain existing equipment in labor-intensive industries. Most public works money, too, goes for new projects rather than for maintenance. Further, lack of uniformity in welfare payments is probably a factor in increasing the number of poor that have settled in Northern cities, while mini-

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\*This commentary was stimulated by a series of "Fed Forums," sponsored by the Federal Reserve Bank of Philadelphia in recent months for the purpose of finding ways to improve Philadelphia's economic future.

mum wage legislation may be particularly harmful to the teenage minorities concentrated in cities like Philadelphia by pricing them out of the job market. Also, compliance with safety and environmental regulations is easier for new plants than for old ones. Finally, Federal transportation policies which favor highways over rail transportation, for example, encourage decentralization and a movement away from the large older cities. The convergence of all of these factors has resulted in substantial job losses and fiscal problems for Philadelphia and similar cities.

#### **FRESH ENCOURAGEMENT**

Change is in the wind. One notable change is that the cost of doing business in the South is rising faster than in the North. Wage differentials have narrowed considerably. The Sunbelt is paying for its prosperity much as the Northeast did earlier.

Also, many of the industries that found it advantageous to develop elsewhere have already done so. Those that have stayed in older metropolitan centers have remained because they anticipate profitable operations in their present locations. The period of significant job relocation from North to South, therefore, may have passed.

There is, in addition, a growing sensitivity at the Federal level to how national policies affect regions differently. All new Federal policy recommendations now must be accompanied by analyses of their implications for

urban areas. Some programs already have been modified to give cities a better break. Philadelphia itself also is more sensitive; its business and governmental leaders have become more aware of the city's strengths and weaknesses. With this awareness has come a greater ability to deploy limited development funds and get a bigger bang for the buck out of them.

The most important influence on Philadelphia, however, and the biggest unknown, is the outlook for the national economy. Policymakers in Washington are trying to unwind inflation without causing a severe downturn. They are moving on a number of fronts to restrain monetary and fiscal expansion, to stimulate competition where regulations keep prices artificially high and stymie productivity gains, and to hold down excessive wage and price hikes. Philadelphia, which can ill afford another deep recession, has a lot riding on the success of this anti-inflation program.

#### **LOOKING AHEAD**

The convergence in Philadelphia of unfavorable factors in the 1970s led to job declines and fiscal problems. With quality leadership and a little luck, a confluence of favorable factors can bring a more stable economy in the coming decade. Already the feeling that Philadelphia has a cheerier future, and not just a rich history in the distant past, is beginning to spread.