

New Beginnings

BY ANTHONY M. SANTOMERO

Welcome to the first issue of the *Business Review* in its new format. Our regular readers will notice right away that the new *Business Review* is bigger. In part, the larger size reflects the fact that we've gone to a quarterly schedule (four issues a year), rather than the previous bimonthly schedule (six issues a year).

As you read through, you'll see it also has more to offer. We continue to bring you our economists' analysis of current issues surrounding the economy, banking, and the financial sector. But we will also share some of the insights that flow from their long-term research projects, and we will report on conferences and seminars held at the Bank and around the District.

One new feature of the *Business Review* I am particularly happy about is this column, *The Third Dimension*, where I will have the opportunity to share some of my thoughts with you. In future columns I plan to write about monetary policy and other central banking issues. This time, though, let me simply introduce myself and say a few words about the region in which our Bank operates.

I came to the Federal Reserve Bank of Philadelphia as its ninth president in July 2000. Prior to my appointment, I had been professor of finance at the Wharton School of the University of Pennsylvania and director of the Wharton Financial Institutions Center. I have lived in the Philadelphia area since joining the Wharton faculty in 1972. Over the years, academic conferences and consultations

with bankers have taken me to many different parts of the world, but Philadelphia is home to me. It is a pleasure to be at the helm of one of its pre-eminent institutions.

I believe that a great strength of the Federal Reserve System is its network of Reserve Banks that weaves central banking into the fabric of the nation's diverse regional economies. Our Bank serves the Fed's Third District – eastern Pennsylvania, southern New Jersey, and Delaware. We oversee the banking organizations that operate here. We provide depository institutions here with coin and currency, clear their checks, and move funds electronically on their behalf. Most important, we represent the people and businesses of the District in the nation's monetary policy deliberations and decisions.

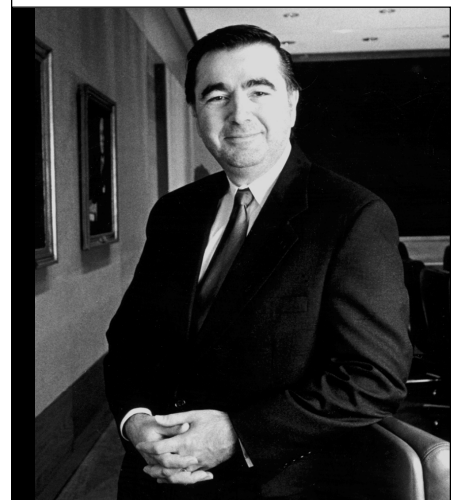
We know that to do our job well, we must stay in constant contact with the banks, businesses, and people of the District. We strive to bring the personal touch to the services we provide. We talk with District leaders regularly, both formally through our board of directors and advisory councils, and informally in the everyday course of conducting the Bank's busi-

ness. We study District economic and financial data to understand the trends at work here.

Recently, our Research Department put together an overall assessment of economic conditions and prospects of the largest metropolitan area in the District, Philadelphia. I had the opportunity to present our findings to the Greater Philadelphia Chamber of Commerce, and it generated a good bit of interest and discussion. The complete report is available at www.phil.frb.org/files/reghigh/repcard01.pdf. I'll just share some of the highlights with you here.

Philadelphia's Economic Performance and Prospects

Philadelphia is part of a metropolitan area of 5 million people spanning nine counties across Pennsylvania and New Jersey. Over the past decade it has shared in the national economic expansion in many ways. The region's unemployment rate has declined dramatically. Venture capital flowing into the area increased sixfold during the late 1990s. In the high-tech sector, Philadelphia is among the nation's leaders for investments in pharmaceuticals and biotechnology. Sustained



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economic growth and effective financial management have helped local municipalities achieve sound financial conditions. For example, the city's fiscal situation has greatly improved over the past several years.

Despite these successes, metropolitan Philadelphia's overall growth has been relatively slow. Although population in the United States grew more than 10 percent in the 1990s, and cities like New York and Boston had some increase in population, the Greater Philadelphia area has seen little change in its total population. Indeed, Philadelphia ranked 42nd out of 50 metro areas in job growth during this expansion.

The slow growth partly reflects the general movement of people, jobs, and economic activity away from the old, established Northeast urban centers and toward the South and West. But other factors are slowing growth here, too. In general, higher labor costs (even adjusted for the quality of our workforce) and high energy costs have dampened job growth in the region. The high tax burden in the city of Philadelphia has also deterred job creation. These factors would have a substantial impact on the attractiveness of any community and so affect growth and job creation here. The good news is that many of these factors are ones that Philadelphia can reverse and turn to its advantage.

In today's knowledge-based economy, the key to a region's success is to attract and retain a growing pool of well-educated and highly skilled people. Philadelphia has not done so well in that regard. For instance, the region ranks relatively low in the proportion of its workforce with college degrees. But it can improve this situation in a number of ways.

Philadelphia is, in fact, home to many highly rated colleges and universities. Clearly, it needs to prepare and encourage more young Philadelphians to go on to college and earn their degrees. Improving the quality of the region's public primary and secondary schools is among the necessary steps in that process.

Also, because of their reputation, local colleges and universities

attract the best and the brightest students from across the country and around the world. Regional employers should pursue these students aggressively when they graduate in order to keep them in our region.

Attracting more skilled workers from abroad offers another opportunity to increase the regional workforce, and one that Philadelphia has not fully exploited. For instance, why did the populations of Boston and New York grow during the 1990s while Philadelphia's did not? One important reason is that those two cities attracted their share of new immigrants to the U.S. while Philadelphia did not. Perhaps our region's trade missions to attract foreign capital should focus on attracting foreign labor as well.

Developing and attracting talented and educated people is important. Keeping them here is equally important — and equally challenging. Good people are mobile, and they choose to make their homes in places where they can enjoy life.

Providing a rich quality of life is perhaps Philadelphia's strongest suit. Philadelphia is steeped in American history. Consider this: Across the street from our Bank, a national Constitution Center is being built to complement Independence Hall and the Liberty Bell, both of which are nearby. In the process of excavating the site for the center, construction crews came upon layers of earth preserving literally 1 million artifacts belonging to African, European, and Native American people living in the area as far back as 1650.

The city is home to an array of major cultural institutions from its world famous orchestra to its art museum. It boasts a growing list of fine restaurants too numerous to mention and a full calendar of events ranging from the Mummers parade on New Year's Day to the annual bicycle race through the hills of Manayunk. Within a few hours' drive, Philadelphians can be on an ocean beach, at a mountain ski resort, or in a casino.

For a long time, Philadelphia's amenities were not well publicized and, hence, not well known. That seems to be changing. For instance,

the city received high marks for the way it hosted the Republican National Convention last summer.

But perhaps Philadelphia's biggest challenge is alleviating the heavy tax burden on its residents. Philadelphia residents bear one of the highest tax burdens of large-city residents anywhere in the country. Everyone recognizes that reducing the city wage tax is crucial to making the city a more attractive place, and the city has taken some initial steps in that direction. The challenge is to make significant cuts in tax rates without either endangering the city's fiscal health or compromising on the goal of improving the quality of life here. Providing good schools, safe streets, attractive public spaces, and an efficient transportation network — all these things cost money. Yet all are essential to attracting and retaining good people.

Thus, finding creative ways to improve government's value proposition — that is, for government to provide better basic services at lower tax rates — is crucial to the region's future success.

In the end, the results of our economic "report card" for Philadelphia drove home two points for me. The first is that for Philadelphia to do well — indeed for any region in our District to do well — we need sustained growth in the national economy.

The second is that sustained growth in the national economy is not enough. For Philadelphia or any other region to reach its full potential also requires the concentrated efforts of its businesses, governments, educational institutions, and other organizations to make that region a location of choice for the economy's most productive people.

I believe that the Philadelphia Fed has something to contribute on both counts. We will certainly do our best.

We welcome your feedback on this and future issues of the *Business Review*. Please e-mail us at Phil-BRComments@phil.frb.org.