Interview with David Eastburn
6/22/79
(in Mr. Eastburn's office)

To start here, you ask how did I become associated with the Federal Reserve Bank of Philadelphia?

I've been here since I graduated from college...came into the Research Department...and became president of the bank in 1970. So I've been here as president for nine years.

(WMP: You served under Al Williams?)

Al Williams had been president, and then Karl Bopp. And they were both economists and so we had kind of a tradition of economists...at least the tradition's been for three generations...economists as president of the Federal Reserve Bank. It's not unusual in the Federal Reserve system for economists to have that kind of a position.

A later question that you ask is about connections with Wharton School. So we have had connections starting with Mr. Williams and, I suppose, before that...with the Wharton School. Willis Wynne, who was the dean of the Wharton School, was chairman of this board for a period of time, and then moved on to the presidency of Cleveland Fed, where he is now.

So our connection with Wharton School has been a rather continuing one but not always at the same...

(WMP: In what ways do they help you?)

Well, mostly in interchange of views. We have in the past, as I'll come a little later, commissioned some studies that they have done, or various parts of the Wharton School--have done for us. But our economists interchange with them in discussions. A number of our people teach out there and we have people from Penn coming in here as consultants and visiting scholars. Not necessarily Wharton School, but from the University of Pennsylvania.

(WMP: How about the other universities in the area? Do they work with you too?)

Yes. We have people teaching at most of those, from time to time. I would say our involvement is less with them than it is with Penn...as a Wharton man.
The function of the Federal Reserve Bank is....

(WMP: That's asking for a lot in a word!)

....is a big question! Well let me try to divide it into three categories...which are not equal categories.

Obviously, the first one is the monetary policy function... trying to provide stable economy. And we do this through monetary policy. That is our most important function, but uses a relatively small number of people in the bank. I would say that of our total man-hours, it may be 10% of our man-hours that are devoted to that.

The great bulk of the work of the Federal Reserve Bank is devoted to handling checks, issuing currency, acting as fiscal agent for the federal government, supervising banks. So that in many respects, the Federal Reserve bank is a very large paper-handler. And there are some 1200 employees, most of whom are involved in inventory and shuffling papers.

The third aspect which you're particularly interested in, which is relatively small compared to those other two, is the function of the bank in relation to the community. And ever since I've been involved in the bank, we have always felt that this is an important and legitimate function for a Federal Reserve bank.

As you know, the Federal Reserve system is organized with a central board in Washington, and then the twelve Federal Reserve banks. And in a sense, this is kind of the regional central bank...central bank for this region. And we've always felt that we had a role to perform in the region, in providing objective, analytical research into problems of concern to the region and the community.

(BF: What do you define as the region?)

Our Federal Reserve district runs from about Johnstown east to Pennsylvania...so it's two-thirds of Pennsylvania, and Trenton down in New Jersey...so that's about half of New Jersey, and the state of Delaware.

And our involvement is with that whole region. But because the Philadelphia metropolitan area makes up about 50% of that total, in terms of population and income and so on, we have concentrated, particularly, in our regional efforts on the metropolitan area.

We like to think that the Federal Reserve bank is unique in being able to provide an objective input into problems concerning the region...that nobody else can...because we have no political ties with anybody here in this area. We're non-political. We do have research expertise, and those two com-
bined enable us to take on issues that give us an image of objectivity that others might not have.

(WMP: In that connection, would you tell us how you were chosen, how you were appointed to the job.)

How I'm appointed?

(WMP: Yes.)

We have a board of directors, which is made up of nine people; three of them are appointed by Washington and the other six are elected by our member banks. This board of directors oversees the operations of this bank and selects the chief executive, subject to approval by Washington. So I got my job...I was appointed by our board and approved by Washington.

(WMP: Mostly bankers are on your board?)

No, only three of the nine. It's divided into three categories, very roughly, to represent three of them the public... these are the two men and one woman...appointed by the board of governors in Washington, the three bankers representing the lending part of it, and the three non-bankers representing the borrowing side.

(WMP: These members are part-time...like board of directors.)

Oh yes. They oversee the operation of the bank and they provide for the .....elect the chief executive of the bank.

Coming back to the point about the way we view our function in the community...it sometimes gets a little hairy because we want to do things that are needed to be done that others wouldn't be able to do and wouldn't have the credibility that perhaps we would have. So that sometimes involves us in issues which are other people's business, in effect.

(WMP: But you're doing it for their best interests.)

Yes, we're doing it for the good of the community. And so we often have difficult questions of how far do we go in making recommendations. And what we try to do is to do competent research and point out alternatives, that then the policy-makers in the community, that is the civic groups, the government and others, can use to make their own decisions on the basis of our information. We feel that if we get actively immersed in the policy itself, we lose our independence and objective position, which we jealously protect.

(BF: What sort of issues do you look into?)

Well, I have a whole list of things on that, and I'm referring particularly to the kinds of things we've done in recent years on the fiscal outlook...for the city and school district, which are very sensitive.
(WMP: I was going to say, how did they respond?)

Why don't I, since you've asked the question,...when I got your phone call, I called up our research group and said, "Could you give me a list of the kinds of things we've done over the years?" And I'll give it to you. That'll just kind of summarize it.

(WMP: Great.)

It's very interesting to look at, because before World War II, we did very little with respect to, really, analysis. Back in the early days, the Federal Reserve Bank had an awful lot of numbers about what was going on in the local economy...like car loadings and things like that, and we just kind of put them out raw for people to digest.

When Al Williams came he brought Evan Alderver from Penn. And Evan Alderver was a professor of industry there at the Wharton School and started original research here. And most of Evan's work, following his work at Penn, was in industry, doing various industry studies. And you may remember some of them. Evan had a tremendous writing style. Well, here's one on coal, one on the apparel industry in Philadelphia, and industrial outlook.

After the war, we spent a good deal of time trying to figure out what the impact of peace...a peacetime economy would have on this region. The concern, if you remember, was that when the stimulus of the war-time economy stopped, we were going to go into recession. And that was when the C.E.D was organized. And C.E.D. was very active in trying to anticipate the post-war period.

(WMP: For the record, would you say what the C.E.D was.)

Right. The Committee for Economic Development was organized, I guess, right at the very end of the war, by a group of progressive businessmen to initially try to anticipate the impact of a peace-time economy. There were a lot of studies done at that time about how much business would spend for re-tooling, capital investment, and so on. And we participated with them in that kind of an activity, making surveys of local manufacturers about their intentions for re-gearing for the peace.

That was, I think, the first thing around the end of the war that we did. And then Evan got launched on these industry studies and there's a whole raft of those which we did.

(WMP: In what way did city government respond to these studies?)

I think, on the whole, favorably. There had been times when
we said things that they hadn't liked. Rizzo has never said it to me, but I've heard it said that he didn't take kindly to some of our studies on fiscal outlook for Philadelphia. But we had very close dealings with Len Moak. And Len, I think, dealt with it very warily in how it would impact his function.

But I think on the whole, it was welcome. I think Len welcomed it, as long as he felt that we were doing a competent technical job.

After Len, one of our economists, as a matter of fact, Rod Johnson, who did some work on these fiscal studies, went to the city as, I guess he's assistant to the finance director. (WMP: I don't know him.)

Well he works for Davis. He's still there. So that indicated at least they had some respect for one of our economists.

We've done work in the past on industrial development in Philadelphia, the kinds of industries that appear to be growth industries...the whole question of Philadelphia vs. the Sun Belt, that kind of thing...the loss of corporate headquarters. Remember Betty Deutermann?

(WMP: Oh yes.)

When Betty was here, she did, among other things, a study where she went around and asked a number of corporate people and others....went up to Boston to compare Philadelphia with Boston, to see what the cause of the problem was in our loss of corporate headquarters. And she got a number of things. One was suggested that research and development wasn't as active here as it might be...as it was, for example, at that time, in Boston...that the university wasn't providing the same kind of stimulus to that as MIT and Harvard, for example, were up there.

She got some critical comments from business people about the innovativeness of the local banks in providing for technologically based growth.

(WMP: How did the banks respond to that?)

I think in mixed ways, Walter. Some probably agreed with it, and on the record disagreed.

Then we get into the 1970s...since I've been in this job the studies on the fiscal situation. And the way we got into that was that when I had been participating in various civic organizations, particularly the one that is now defunct that you were active in, the one on city planning.
Citizens' Council on City Planning, yes. I was involved in that for a few years and it became so apparent to me that everybody had a feeling that the city was headed for doom, because we were just getting larger and larger deficits, and nobody was standing back and trying to see where we were going. And that was kind of a collision course. And so I felt ... this was early in the '70s, that there was a need for kind of an overall view and projection of where we seemed to be heading. And so we did a study... let's see... it was in 19... it must have been about '71... ...or '72... somewhere around there... it tried to make some projections about expenditures and receipts for the city and the school district... and predicted a horrendous deficit... that was the one that Rizzo had some reaction to... ... which actually did not materialize... and we didn't really expect it to materialize because because all we were doing was to say, "If we keep going this way with expenditures and if we keep going this way with revenues, this is what's going to happen". It was really an attempt to call attention to the problem.

We didn't tell him what to do. Well, again, we gave alternatives. If this were to happen, one way to deal with it would be this... another would be this. And as a result, it didn't materialize and there were reductions in the rate of expenditure growth. I like to think it had some impact, at least in calling attention to it.

But since that time we have kind of followed that up periodically.

Oh yes. Well, our interest goes, really, for the whole Federal Reserve district... which goes out, as I've indicated, through Pennsylvania and New Jersey. But these all have to do with the metropolitan area. Fiscal studies are city and school district, per se.

Right now we're doing some work on the question of location of industry in the city as compared to the suburbs... what motivates location of various kinds of industries in the city as compared with going out of the city.

You have this as a question.
No...no...I worried about that question because I was trying to think where I really come out of that. And I'm not sure that I'm competent to answer that. I have a feeling that so far as industrial development in concerned, that there's been a tendency to try to go out and get General Motors to locate a branch here, you know...and to attract industry to the area...as kind of a bold solution to industrial development, rather than analyzing where is the growth going to be, or what kinds of industries do you stand the best chance.

(WMP: And what facilities do they need.)

And what kinds of facilities are they going to build.

I haven't had the impression that there's been adequate attention paid to analyzing what the potentials are for growth and where to put your bucks...that there's been a lot of emphasis on image and advertising and things of this kind, and not enough on analyzing your strategy.

(WMP: Do you think of any particular areas where the city could have advanced its interests more than they did?)

Now, this is my bias, Walter; I would have, given my background and so on, I would have put some resources into good competent economic analysis of the city and the area...and tried to figure out what the problems were and what the best opportunities were.

(WMP: Do you feel that the Philadelphia Development Corporation is deficient in that regard?)

I don't know if it's there or not. As you know, there have been various city economists on the job...there was Petshek at one time.

(WMP: Yes, I hired him.)

You hired him. And then there was a younger fellow...what was his name...

(WMP: I can't remember.)

I can't remember either. Very attractive young fellow...But I've never felt that the actual development has followed a really well thought through plan of...where your best opportunities were, and where you ought to write off.

(WMP: Do you think it was a mistake to have such a thing as the Philadelphia Development Corporation?)
No, I wouldn't think so: I think you need to have it. I say this with a good deal of deference to others who are much closer to it than I am, and they were able to buck my own biases about the need for research on it. There are people who actually and I'm sure feel differently about...see the problems much more differently than I do.

I've never had the feeling, just to summarize...that there was a well thought out what the problems are and where we need to be.

(WMP: Maybe there should have been a group to have focused just on that subject over the years.)

Well, you know, when you're in that kind of a situation you spend an awful lot of time just putting out fires. And if you hear so-and-so's going to close up and move to the suburbs or move to Alabama, you spend a lot of your time just trying to meet those problems.

(WMP: Also, you get changes in personnel in the city hierarchy, which causes problems.)

Sure.

(WMP: What about the region around the city. You study that too, don't you?)

The suburbs? Yes, we've done a good deal there in terms, as I indicated before, of motivations of industry to locate in the Center City as compared to surrounding areas. And some of that's in process now so that it should be coming out some time during the next few months probably.

(WMP: One more question: is the Redevelopment Authority... ...you may have said this answer already....affected?)

I wouldn't care to comment on that. I haven't really been close enough to it to have the authority to deal with it.

Let's see what else you have here. What interest does the bank have in keeping in touch with the banks in Philadelphia?

*** Interruption due to telephone call***

(BF: Did you talk about question number five?)

Five? How directly is the city government affected by the operation of the Federal Reserve system?

Well, the city government is not directly affected by things
that we do. Indirectly, very much it's affected, because in many ways we have an influence on the economy, the national economy and that affects the environment in which the city operates...jobs, incomes, and so on.

And in the other kinds of things we do, the city benefits to the extent that we keep the financial system in good shape...but not directly.

We have very close contact with the banks in Philadelphia. We supervise and examine some of the banks in Philadelphia. The arrangement is a complicated one. National banks are examined by a controller of the currency, so that if you look at Philadelphia National Bank or First Pennsylvania, Provident...they're all national banks...and they're examined by a controller of currency, not by us.

We examine the state member banks, and they're Fidelity and Girard. And so we're very much involved, intimately, in those banks.

But we're also involved in other aspects of all the banks, because we have supervision over bank holding companies, and all these banks have bank holding company.

Now if you want more detail I'll give you that, but I'm not sure that you do.

(WMP: Just a word or two...what is the purpose of the holding company?)

Since about 1968, I think it was, banks were permitted by law to form holding companies which enabled them to diversify their activities. So that a typical large bank holding company will be an organization that has, as its subsidiaries...the principal subsidiary would be the bank itself. But then they can also have other subsidiaries which would be in the consumer finance field, mortgage finance field, and even things like insurance and travel agencies and things of that kind that are related to banking. So it was thought of mostly as a way to provide opportunities for banks to diversify into related but not strictly banking activities.

Does the bank maintain a set of economic indicators for the region and if so, how important are they to the businessmen of the district?

We used to do a good deal of this and we found that there were relatively few people who really used them regularly. We published the whole set of statistics for the region and the way we found out about their use was to discontinue it. And we got some response from a handful of people.
Yes. I think, partly because there are other sources of the information and maybe to some extent because the Wharton School's gotten into this more. The Wharton School now has an econometric model for the region. And I think some of the businesses that are particularly concerned about which way the region's going, may use that.

We have recently developed a new set of statistics which are leading indicators. You know, there are leading indicators for national economy; these are indicators that are supposed to tell you what's going to happen... early. There's been a great deal of emphasis for a long time on national leading indicators. And we have recently published a study on indicators for the region. That's available for you if you want to see it.

It's new, and I think it's too early, really, to tell how many people are going to use it.

So our experience has been kind of up and down on that. I think, generally, that my feeling is that we can contribute more by devoting our efforts to analytical studies rather than grinding out numbers.

To what extent do you as president of the bank, participate in the civic life of Philadelphia?

More than I should! I'm on the GPP board, not terribly active on that; the Orchestra's been taking a lot of my time. I participate in United Way; I've been reasonably active in that; International House, a little bit, and in the old days, the Citizens' Council.

Now you have a blockbuster here. Would you talk about the trends in Philadelphia's economy since World War II and describe the nature of the economy in Philadelphia today?

I think I'll give you an outline for whatever use it might be to you... that the research people put together... which says things that you know, I think, pretty much. Specifically that the Philadelphia economy has evolved over the last several decades from the manufacturing economy to a service economy... and...

...and losing commerce to the Sun Belt... this kind of thing.

What economic trends do you see for the future of Philadelphia?
That's a very interesting question that we have been involved in to some extent.

I happen to think that the future of Philadelphia is more optimistic than some people make it out to be...because at some point we have to run out this string that we've been on where we've been re-adjusting relative to other areas of the country. This is an old area; we developed early. Other regions are developing because of advantages that they have in terms of their resources. And there has been taking place adjustments in the balance between old areas and new areas. At some point that's got to reach an equilibrium. And I think we're getting to the point where we should be starting to see that.

Specifically, rising labor costs and rising resource costs down there in terms of utility costs, energy...which would tend to reduce the advantages that they had for lower costs.

(BF: So that would prevent people from moving but would new industries, manufacturing industries begin again here?)

Probably not, probably not. But I would think that industries that are looking at location and so on, would find Philadelphia relatively more attractive than it is right now...compared to some of those other areas.

Actually, the studies indicate that the main problem hasn't been a matter of movement of industry from here to the Sun Belt. That is, you don't find companies closing up doors and opening up there. The problem more has been that there's been relatively faster growth down there, what they have, compared to slower growth here that we have, are relatively more location choices to be made by people outside in favor of the Sun Belt. It's not so much that people have picked up lock-stock-and-barrel and gone down there, but it's been incremental.

And to the extent that the advantages that have accrued to that area are reduced relative to ours, that means that that tends to equalize.

Then I think the other thing is that we will have opportunities to capitalize on the technological kinds of things that are good out here in pharmaceutical, medical and electronic...those rapid growth, high knowledge-input kinds of things, that are supported by the universities that we have here.

The problem, I think, in that kind of a development, is that somehow, the future you would have to phase out the kind of work force that we have left over, from our heavy emphasis on things like apparel and textiles and things of that kind, who are not equipped to deal with the kind of trend in knowledge-oriented industry that I think we should have. They
have an adjustment in terms of the labor force. And maybe the only thing that solves that is time for these people to die.

That, I think, is the most difficult problem we have in industrial development, because the tendency is...you look at your labor force and you have a large component of labor that is only well adapted to unskilled ways. So then you establish an apparel center; put them to work. An apparel center's good for that purpose but it has relatively little opportunity to grow; it's not a growth industry. And so you have a long range desire to latch on to growth industry to put you on the move fast, and a short-term need to match the labor that you have with some kind of industrial development.

Over time...you can solve a lot of things in time...you can educate and train, but in the immediate period, you have the problem of a mismatch between the kind of labor you have and the kind of industry you would like to have...or get.

Well, you have a question about how effective the agencies have been and you asked that before.

I don't know if these things would be helpful to you...but you're welcome to have them.

(BF: I'm sure they'd be interesting.)

The first one is a summary of studies that we've done, and the second one is an outline on Philadelphia.

(WMP: Thank you.)