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THE BIG BUSY

The Resurgence of New Orleans

Big Data: Government's
Next Frontier?

Innovative Strategies in
Community Development

Sovereign Debt: Two
Perspectives

EconSouth

FEDERAL RESERVE BANK OF ATLANTA THIRD QUARTER 2013



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The Big Busy

After Hurricane Katrina ravaged New Orleans in 2005, many people wondered when the city would rebound—or if it ever could. The city's resurgence is all the more remarkable, then, as a post-Katrina reset has dramatically transformed its economy.

Big Data: Government's Next Frontier?

Some government agencies have undertaken big-data initiatives targeting certain groups, including prison parolees and college students. These initiatives benefit the people they target while helping the organizations achieve efficiencies otherwise unavailable.

Innovative Strategies in Community Development

Community developers have long sought to balance the needs of residents with the realities of budgets, demographics, and politics as well as related concerns such as residents' need for access to transportation and employment. Recent innovative approaches have made strides in addressing the myriad concerns of constituent groups.

Sovereign Debt: Two Perspectives

The austerity debate is contentious, but it's among the most important public policy debates of our time. The debate over austerity raises many questions, and the affected countries have responded in a variety of ways and with varying degrees of success.



SAMPLE



EDITOR'S NOTE: This issue of *EconSouth* contains quick response, or QR, codes. Using an iPhone, Android phone, or other device and a downloaded reader application, you can scan the QR

codes embedded throughout the issue. The codes will take you to locations on the Atlanta Fed's website that will provide enhanced information on the subject at hand.

In With the New (Orleans)

Although the entire country shuddered at what befell New Orleans when Hurricane Katrina struck in 2005, we in the Southeast felt our neighbors' plight especially intensely. So we take a special measure of pride in the city's resurgence in the ensuing eight years. This issue, staff writer Charles Davidson examines the remarkable rebirth of a city that some doubted would ever be able to bounce back.

"Most New Orleanians are evangelical about their hometown," Davidson said. "When you're trying to get a handle on the economy there, it's tough to quantify that loyalty and the city's undeniable sense of place. No data truly measure those things. But the bond between people and place has been a genuine force in New Orleans's resurgence. Go there, talk to people, read about what's happening, and it's all but impossible to conclude otherwise. New Orleans still has its problems, to be sure. Nevertheless, it has made remarkable progress. It will be fascinating to see what the future holds."

A different sense of community

New Orleans is far from the only place grappling with forces that threaten to impede growth. Many smaller communities face unique challenges, and staff writer Lela Somoza looked at some innovative efforts to kickstart growth and economic opportunity.

"One of the trends shaping the community development field is partnership building," Somoza said. "To me, it seemed like a natural step to take, especially in an era of limited resources. I was surprised to learn, however, that partnerships are far from the status quo, largely because of intense competition and limited time for networking. Fortunately, the trend toward greater collaboration seems to be changing as different organizations realize how much more they can accomplish by sharing information and resources. I'm looking forward to seeing how this trend plays out over the longer term."

Former Atlanta Mayor Shirley Franklin talks about her post-mayoral community initiatives in a podcast accompanying

this issue's online edition, and I encourage you to listen to her discussion.

Peripheral Europe and Big Data

Europe's prolonged economic malaise has launched countless debates among economists about what course monetary policy might take to provide the best cure. *EconSouth* looks at this complex issue in a feature by Galina Alexeenko, a director in the Atlanta Fed's Nashville Branch, and Andrew Flowers, a senior economic research analyst in the Atlanta Fed's research department. In examining sovereign debt in what has become known as "peripheral Europe," Alexeenko noted the progress that been made in the face of daunting circumstances.

"What struck me are the strides these debt-ridden countries have made thus far on achieving their fiscal targets and how much their fiscal health has improved," she said. "Imagine a person taking a pay cut and then saving more and paying down more of his debt!"

Flowers, meanwhile, talked about the importance of looking beyond the data. "Although studies like the ones cited—on fiscal multipliers, for example—are necessary and can be illuminating, their empirical nature can also be fragile at times," he said. "Econometric studies are helpful in furthering our understanding of important public policy debates, like austerity, but in my opinion are just one piece of the puzzle."

And rather than looking beyond the data, associate editor Nancy Condon examined in her feature how the data look at people. In researching big data and government, she was pleasantly surprised by the number of success stories connected to the topic. "In this era of sequestration and budget cuts, it was refreshing to learn about projects that have actually increased government efficiencies," Condon said. The use of data in the prison system as well as one university's success in keeping college students in school and on track demonstrates the benefits of Big Data. ■

Lynne Anservitz
Editorial Director

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Editor's note: Throughout this issue, Southeast refers to the six states that, in whole or in part, make up the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

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WILL ROBERDS is a research economist and senior policy adviser in the research department of the Atlanta Fed.

The Lessons of Monetary and Financial History

Economic crises have occurred repeatedly in the past—and will continue to occur in the future. This history holds valuable lessons for us today, especially as we continue on the slow road to recovery. Before becoming Federal Reserve Chairman, Ben Bernanke was a noted scholar of economic history, and there is little doubt that his insights on the Great Depression and other crises were a great advantage. In June, the Federal Reserve Bank of Atlanta and Emory University invited leading experts to a workshop to present new research on monetary and financial history. (During the four-day event, 17 presentations were made, many of which are available on the Federal Reserve Bank of Atlanta’s website at frbatlanta.org.)

Something old, something new

Barry Eichengreen, a professor of economics and political science at the University of California, Berkeley, delivered the conference’s keynote presentation, “Mutual Assistance between Federal Reserve Banks as Prolegomena to the TARGET2 Debate in Europe.”

In his talk, Eichengreen focused on the parallels between the relatively decentralized structure of TARGET2 (the large-value payment system of the euro) and the settlement arrangements among the Federal Reserve Banks in the early days of the Federal Reserve System. The crises of the Great Depression ultimately resulted in greater unification of the Federal Reserve’s settlement system. Eichengreen argued that TARGET2 today is experiencing the same types of strains that the Fed underwent in the 1930s.

Eugene White of Rutgers University and the National Bureau of Economic Research presented a coauthored paper on the French financial crisis of 1889 that explored the role of moral hazard in central bank interventions and the extent to which a financial crisis can be contained. In 1889, the central bank of France (Banque de France) discovered that a leading commercial bank, Comptoir d’escompte de Paris, was highly leveraged and taking huge off-balance risks by guaranteeing payments for forward contracts of copper as part of another firm’s attempt to corner the world copper market. When a run on the

History holds valuable lessons for us today, especially as we continue on the slow road to recovery.

bank began after the scheme failed, the minister of finance forced the central bank to intervene with a rescue operation to avoid a general panic.

Bagehot’s dictum—named for the 19th-century British businessman Walter Bagehot—calls for central banks during times of financial crisis to lend without limit to solvent firms at high rates and against good collateral. But political circumstances forced the Banque de France to modify Bagehot’s dictum by requiring private participation in its bailout of the troubled Comptoir d’escompte de Paris.

Curbing bad behavior

Any bailout necessarily raises concerns about moral hazard: rewards in the form

The crises of the Great Depression ultimately resulted in greater unification of the Federal Reserve's settlement system.

of bailouts might encourage additional future risk-taking behavior. (Professor

White and his coauthors draw comparisons between the 1889 French crisis and the Federal Reserve's 1998 role in the rescue of Long-Term Capital Management.) In an attempt to mitigate moral hazard risk in the wake of the 1889 crisis, the Banque de France purged the banking system of officials and board members who had conflicts of interest, nullified contracts that would have rewarded risk-taking speculators, and levied large penalties against managers and directors of the commercial bank at the center of the crisis. These actions deviated from the accepted central banking practices of the time, the authors note,

but they seemed to have worked. No more French financial crises occurred in the pre-1914 era.

Eichengreen, White, and the other scholars at the recent Atlanta Fed-Emory workshop showed that both the recent and not-so-recent past may provide valuable lessons. While "history is not a perfect guide," as Fed Chairman Ben Bernanke noted in an April 2010 speech, monetary and financial history can give us direction today. ■



HOW MANY JOBS DOES IT TAKE TO LOWER THE UNEMPLOYMENT RATE?

You can find answers to this and many other questions with resources from the Atlanta Fed's **Center for Human Capital Studies**. We offer several tools that will help you better understand jobs, employment, and labor.

Jobs Calculator: An interactive tool that depicts changes in the unemployment rate. How much does the labor force participation rate or employment affect the unemployment rate?

Labor Market Spider Chart: A frequently updated tool showing 13 measures of labor market activity. Visualize the status of the labor market and track its multiple dimensions.

Human Capital Compendium: What is the Federal Reserve saying about human capital and employment? This repository provides access to research published on topics related to employment, unemployment, and workforce development.

To access these tools and more, visit frbatlanta.org/chcs/



Macon, Georgia

Middle Georgia, the Military, and Transportation

Like many places in the Southeast, Macon, Georgia's economy has been shaped by three forces: cotton, the United States military, and the interstate highway system.

Two of the three elements—the military and the transportation network—are still critical to Macon and middle Georgia. Although Macon's location at the junction of two interstates remains an advantage, the long-range future of the military presence is unclear. Meanwhile, a growing health care industry and employment at local colleges and technical schools have helped to balance the local economy.

Without question, no economic element is more important to middle Georgia than Robins Air Force Base. As the nation entered World War II, Robins opened south of Macon to maintain airplanes. The base remains Georgia's largest industrial complex, with 24,692 employees, including about 18,000 civilians, according to the base's 2012 economic impact statement. Because the federal government's Base Realignment and Closure Commission (BRAC) scrutinizes military installations for cost savings, the future of Robins is a serious concern. Base officials, along with local political leaders and economic developers, are positioning Robins to remain viable, as they also work to limit the effects of likely downsizing, said Mike Dyer, president and chief executive officer of the Greater Macon Chamber of Commerce.

For example, in evaluating the future of its installations, the Pentagon considers "encroachment areas." In other words,



bases are more likely to be closed or shrunk if they are hemmed in by development and thus restricted in their missions because of the noise or hazards they present to civilians. To try to lessen that concern at Robins, the Macon Chamber, local governments, and other entities have allocated funds to buy land near the base.

"The base has to make sense in the military system," said Pat Topping, senior vice president of the Macon Economic Development Commission. "And the community's role is to try to eliminate things outside the fence that could affect the BRAC process."

A wider Panama Canal could float Macon's boat

Transportation infrastructure is a very stable asset. Several years after Robins opened, construction of the interstate highways began. Macon's location at the junction of interstates 75 and 16 has helped the city attract distribution centers for large companies, including Bass Pro Shop, Kohl's, and Sara Lee. Another, Tractor Supply Company, a Tennessee-based chain of farm supply stores, plans to soon open a 14-acre distribution center along I-75 that will employ 200 people.

Economic developers, however, are thinking bigger. In the coming years, they hope to position Macon as an inland port complementing the Port of Savannah, a major container seaport on the Georgia coast. Ideally, cargo arriving from Savannah by rail and truck could be processed through customs in Macon and then sent toward its final destination. For now, the inland port concept depends on a hefty increase in the volume of Macon-bound cargo from Savannah, Topping said.



Macon (left) and nearby Robins Air Force Base (below, showing maintenance on a Lockheed C-5 transport aircraft) have long shared a symbiotic relationship.

Macon, Georgia

Population	91,969
Bibb County population	155,547
Total housing units	43,175
Median household income	\$26,545
Median home value	\$90,300

Source: U.S. Census Bureau, 2007–11 American Community Survey



A key to such a boost in cargo is the anticipated deepening of the Savannah port. Port officials want to expand the harbor to accommodate the larger ships that will traverse the Panama Canal when it is widened, a project scheduled to be finished in 2015 (see the third-quarter 2010 issue of *EconSouth*, “Full Steam Ahead: Southeast Ports Prepare for Panama Canal Expansion”). Macon ideally would serve as a sort of relief valve for a busier Port of Savannah. If more and larger container ships steam into Savannah, some cargo could be immediately loaded on trains and sent to Macon, thus relieving congestion at the seaport.

“There are a lot of ifs that could take place,” Topping said. “And if that happens, we would be more attractive as an inland port.”

Home to considerable history

Macon actually traces its roots to waterborne commerce. Incorporated in 1823—14 years before Atlanta—Macon initially thrived as a hub for trading and shipping cotton grown in the fertile middle Georgia soil. The Ocmulgee River and then railroads made Macon a cotton transport center during the 1800s and early 1900s. The city subsequently took its place as a locus of textile manufacturing, starting

in earnest in the 1870s with the founding of Bibb Manufacturing Company.

Cotton culture brought Macon “substantial wealth, war, and subsequently genteel poverty for its first 100-plus years,” according to the *New Georgia Encyclopedia*.

World War II changed that. Robins—just south of Macon—brought an influx of people and money. The base’s significance was the reason its hometown, the once-tiny town of Wellston, was in 1945 renamed Warner Robins, after General Augustine Warner Robins, a logistics pioneer in the Air Force for whom the base is named. Warner Robins grew sufficiently so that in 2003 the Office of Management and Budget designated it a stand-alone metropolitan statistical area (MSA), separate from the Macon MSA.

As Warner Robins continued to add population and jobs through the late 20th and early 21st centuries—primarily at and around Robins—Macon continued to have a stable economy.

Yet Macon’s manufacturing sector shrank. The portion of factory jobs as a share of total nonfarm employment in the Macon metro area is roughly half the share for Georgia as a whole and the United States, according to data from the U.S. Bureau of Labor Statistics. Textile

mills faded from the scene during the late 20th century, as they did throughout the Southeast. Another blow to the local manufacturing economy came in 2006, when Brown & Williamson Tobacco merged with R.J. Reynolds Tobacco Company and closed a cigarette production plant that employed 2,100 people.

Education and health services have helped to fill the void. Over the past 10 years, Macon’s education and health services employment rose about 25 percent, to more than 20,000 jobs, even as overall employment fell slightly. Over a longer horizon, the story is the same. Education and health care jobs since 1990 have grown by 58 percent in Macon, far outpacing total employment growth of 13 percent. As of June 2013, the education and health category accounts for 21 percent of Macon’s jobs, a far bigger slice than the category claims statewide, at 13 percent, and nationally, at 15 percent.

While the immediate outlook for Macon’s health care sector is murky amid adjustments brought on by health care reform, the long-term outlook is bright. “Mainly, there will be a push to increase efficiency, and as a result, in the short term, there might be some consolidation of facilities and reductions in employment,” said Aleksandar (Sasha) Tomic, a visiting assistant professor of economics at Mercer University in Macon. “But once the adjustments are made, over the longer term, there will be plenty of growth.” ■

This article was written by Charles Davidson, a staff writer for EconSouth.



THE

Big Busy

A radical reset after the Katrina catastrophe is transforming the economy of New Orleans



If anybody embodies today's economically resurgent New Orleans, it might be Michael Hecht.

Hecht is no musician. He's not a chef. And he's not a native. Hecht, the president and CEO of Greater New Orleans (GNO) Inc., the area's primary economic development agency, certainly doesn't talk like a typical New Orleanian. His descriptions of post-Katrina New Orleans as a "brand," a "product," even as "a private equity play" sound utterly incongruous with the city's freewheeling culture.

It's a culture that locals and visitors alike have loved for nearly 300 years. Traditionally, New Orleans' great charm—and challenge—was that nothing ever seemed to change. Lay eyes on a 150-year-old, filigreed "shotgun" cottage, and you know you are in New Orleans. It is a city of street-corner dive bars and

old-timey one-speed bicycles that glide over the flat terrain; of a world-famous indigenous cuisine; of a local trumpeter who barbecues chicken at his gigs. It's a place where a guy holed up amid Hurricane Katrina's floodwaters told the renowned chef John Besh that the red beans and rice Besh served him from a boat weren't as good as his mama's.

Hecht, 42, knows all this stuff. It's his job to sell the gumbo of music, food, and eccentricity that makes New Orleans extraordinary. In fact, Hecht describes the assets of New Orleans as historically underused, and they now rest in the hands of new management determined to maximize their value, much like a private equity deal.

Given New Orleans' storied indifference to outside currents, the city and Hecht—who talks in lists and concise paragraphs



Q&A

Tim Williamson
Founder of Idea Village

So you and the city's few other Internet guys used to discuss why there wasn't more of a tech economy in New Orleans?

Imagine you're looking at a city that was at the bottom in every single metric—that was declining economically, socially, morally. How do you reverse that change? Our answer was through entrepreneurial talent. What was needed was a new network. New Orleans had built an insular network.

How did Hurricane Katrina affect that?

The idea of restarting from nothing—with limited resources and limited information and tons of uncertainty—sort of brought out the entrepreneurial ethos of this community that was started in the 1700s, but that was lost. It was dormant. Then it was exposed. Closed networks were fractured. That changed the dynamics of decision making here. It was no longer what high school you went to.

New Orleans's culture and sense of place seem genuinely to have spurred the economy. What's your take? It's something deeper than music and food. There's a rhythm and ritual to living here. It's a very calendar-based city: Mardi Gras, Saints, Jazz Fest. You become connected to this community through the way you engage with others. You do it over and over. So when people leave, they miss that connectivity. It's remarkable that everyone takes off one day, on Mardi Gras Day, and shows up. We might not all like each other, but we show up. New Orleans can teach other cities how to connect, I think. We connect better. ■



might seem an odd match. But no more. Since Katrina flooded most of the city in August 2005, New Orleans has changed.

It had to, say local businesspeople and observers. “Katrina created a lot of debris, but it also swept away a lot of debris,” said Tony Gelderman, an attorney and real estate developer who has lived in New Orleans for 41 years. “It caused New Orleans, which was very, very insular, to be more receptive to outside ideas.”

So far, so good

There is more at work than an attitude adjustment. For various reasons, the economy in New Orleans since Katrina has reversed decades of decline and outperformed the nation and other southeastern metropolitan areas (see chart 1). The NOLA—locals' preferred nickname—metropolitan statistical area's real gross domestic product (GDP) grew an average 3.9 percent a year from 2008 through 2011, according to the most recent data available

from the U.S. Bureau of Economic Analysis. During the same period, U.S. GDP expanded less than 1 percent a year, and no other southeastern metro area topped 2 percent.

Undoubtedly, the more than \$100 billion in federal aid for post-Katrina rebuilding helped cushion New Orleans and south Louisiana from the Great Recession. Beyond that, though, tourism hit record levels last year, knowledge-based industries such as higher education and engineering are expanding, locals have started companies at a per capita rate 56 percent above the national average, wages have risen faster than elsewhere in the United States, and the demographic mix has shifted toward more higher-income households and fewer poor households. Finally, the New Orleans metro population as of mid-2012 had climbed back to 1.23 million, about 94 percent of its pre-Katrina level, according to the U.S. Census Bureau.

In many respects, economic data describe New Orleans as a city catching

up to the nation and other metro areas. For instance, inflation-adjusted average weekly wages jumped 19 percent in the New Orleans metro area from 2004 through 2012, vastly outpacing the national increase of 1 percent, according to the University of New Orleans Division of Business and Economic Research, the Louisiana Workforce Commission, and the U.S. Bureau of Labor Statistics (BLS). Orleans Parish's average weekly wage of \$992 in the fourth quarter of 2012 was roughly on par with Birmingham, Alabama's average. That wage trailed only Atlanta and Nashville in the Southeast and, by just \$8, the U.S. average.

And New Orleans in 2010 roughly equaled the national norm of residents aged 25 to 34 with at least a bachelor's degree, at 29 percent, according to the Greater New Orleans Community Data Center (GNOCDC). The arrival of more college graduates may have plugged a "brain drain" that long plagued New Orleans, the center reported.

Though residents remain acutely aware of the tremendous human toll Katrina exacted—which is still apparent in pockets of the city—interviews, studies, and news reports signal that a "newfound energy and optimism" have infused the Crescent City, said Allison Plyer, director and chief demographer of the GNOCDC.

Others have noticed. For decades, Louisiana had lost educated young people for lack of jobs—that aforementioned brain drain. The situation has begun to change. Fed by a growing digital arts and technology industry, along with a post-Katrina influx of Teach for America volunteers, New Orleans has become a heralded destination for college graduates. *Forbes.com* in 2011 named New Orleans America's leading "brain magnet," and in May 2013 ranked the Crescent City third behind San Jose and San Francisco for information-sector job growth. Also in December 2011, the *Wall Street Journal* dubbed New Orleans the nation's most improved city for business.

A radical reset in the wake of disaster

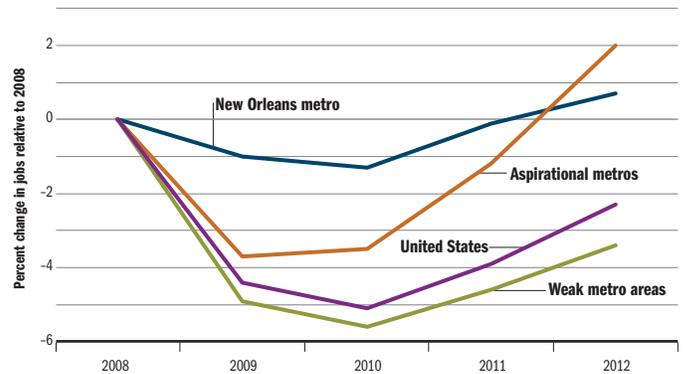
Perhaps radical change was to be expected. "New Orleans was like a morbidly obese person who finally had a heart attack that was strong enough to scare them, but not strong enough to kill them," Hecht said. "Katrina laid bare that this was a city and a region that had been in slow, decadent decline, probably since the '60s," when it was almost as big as Atlanta and Houston.

Tulane University sociologist Carl Bankston has pointed out that New Orleans was economically adrift for decades even before Katrina. "The storm," Bankston wrote in a 2010 paper, "simply exacerbated a long historical trend."

To illustrate the changes time wrought, consider that in the mid-1800s New Orleans was the nation's third-largest city and operated the second-busiest U.S. port. New Orleans remained among the country's 20 most populous metro areas until 1950. Yet leaders did little to diversify the city's 19th-century economy beyond its port, which boomed in tandem with the South's cot-

Chart 1

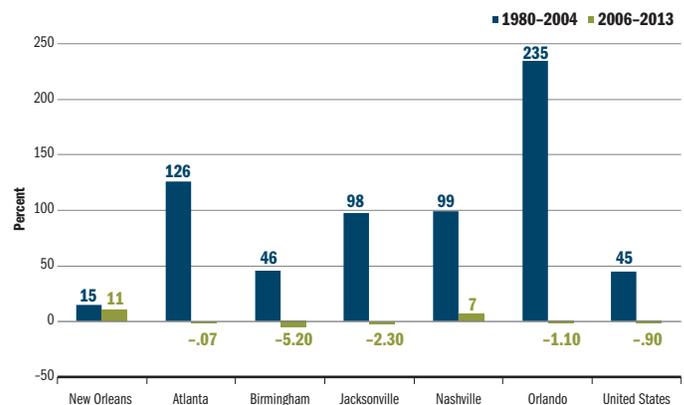
Job Loss and Recovery, 2008-12



Note: "Aspirational metros" include Orlando, Nashville, Raleigh, Charlotte, Austin, Houston, and San Antonio. Cities with weak metropolitan numbers include 57 cities with poor economic and quality-of-life statistics.
Source: U.S. Bureau of Labor Statistics, Greater New Orleans Community Data Center

Chart 2

Nonfarm Employment Growth in the Southeast, 1980-2013



Source: U.S. Bureau of Labor Statistics

ton trade. Similarly, 20th-century New Orleans relied on old standbys such as tourism, the port, shipbuilding, and energy—sectors whose employment dwindled in the late 20th and early 21st centuries.

The result was an economy in neutral. Between 1980 and 2004 the New Orleans metropolitan area's nonfarm employment increased just 15 percent, a third the rate of job growth nationally, according to the BLS. New Orleans fared still worse next to regional peers. Orlando's job growth was 235 percent from 1980 to 2004, while Atlanta's was 126 percent. Jacksonville and Nashville both doubled employment (see chart 2).

Vanishing Wetlands Vital to New Orleans

Flying over south Louisiana, you see a striking geometric pattern of diagonal canals slicing through the wetlands.

Most of those straight-edged waterways were cut for access to petroleum drilling facilities. Those canals are but one reason—the main one being the construction of hundreds of miles of levees along the Mississippi River—why some 2,000 square miles of Louisiana’s coastal wetlands, an area about the size of Delaware, have been lost to open water since 1932, researchers have found.

If the rate of wetlands loss that happened between 1985 and 2010 continues, “the region would lose wetlands by an area the size of one football field per hour,” according to a research paper by scientists from the U.S. Geological Survey’s National Wetlands Research Center, the National Wildlife Federation, and Warren Pinnacle Consulting.

This steady loss of wetlands happens out of sight of New Orleans. But it is critical to the metropolitan area, according to many experts. Indeed, coastal wetlands loss is “perhaps the most daunting issue New Orleans faces,” says the Greater New Orleans Community Data Center’s (GNOCDC) *New Orleans Index at Eight*, published in August and the latest in a series of reports on the area’s fortunes since Hurricane Katrina.

Flood protection, economic linchpin

Louisiana’s wetlands protect the New Orleans region from flooding and serve as breeding grounds for the largest commer-

cial fishery in the lower 48 states, according to the National Oceanic and Atmospheric Administration (NOAA). Manmade levees and flood walls alone are insufficient storm safeguards without the natural defenses of healthy marshes, natural ridges, and barrier islands, the GNOCDC notes. Nationwide, coastal wetlands provide more than \$23 billion annually in storm protection, according to NOAA. “Additionally, the metro area’s three largest economic drivers (tourism, oil and gas, and shipping) and the fishing industry (especially in parishes outside the city) rely on a robust coastal landscape to protect their infrastructure, assets, and resources,” the *Index at Eight* says.

Much of the damage to Louisiana’s coastal environment is traceable to human activity, said Mark Davis, senior research fellow and director of the Tulane Institute on Water Resources Law and Policy. Many economic benefits, of course, have flowed from that activity, such as jobs in the energy industry and flood protection that’s allowed development and agriculture along the Mississippi River.

Thirty percent of the nation’s seafood comes from the region, supporting about 32,000 jobs, and 30 percent of the oil and 12 percent of the gas produced in the United States crosses the fragile Louisiana wetlands, said R. King Milling, a former director of the Atlanta Fed’s New Orleans Branch and chairman of America’s Wetland Foundation and the Louisiana Governor’s Advisory Commission on Coastal Protection, Restoration, and Conservation.

Energy exploration and production employ more than 50,000 people in Louisiana, according to the U.S. Bureau of Labor Statistics. “The successful delivery



of product is absolutely dependent upon the functionality of pipelines, holding tanks, compressors, and gas processing plants, all of which are dependent upon the protection historically supported by what is now a depleting ecosystem,” Milling said. “That infrastructure cannot withstand direct assaults of the Gulf.”

A glimpse of good news

Amid the concerns, there is good news. Since Hurricane Katrina and the 2010 BP oil spill, the state of Louisiana and the city of New Orleans have placed renewed emphasis on water management and coastal restoration. The New Orleans metro area has launched “the most extensive, comprehensive water management planning that it has done in generations,” Davis said. Furthermore, New Orleans economic developers hope the city’s experience in managing water and coastal resources will cultivate expertise that could be exported to other cities via consulting and engineering projects.

“Prior to Katrina the future of New Orleans and the coast were far more certain—they were decidedly unsustainable,” Davis wrote in *Resilience and Opportunity: Lessons from the U.S. Gulf Coast after Katrina and Rita*, a book published by the Brookings Institution in 2011. Now, there is hope. “As long as the jury is out, you have a chance,” he said in August. “My first thought is to point out that I still live here and think it makes sense to.” ■

With few new jobs to attract people, New Orleans’ population barely budged. In mid-2005, the MSA population was 1 percent larger than in 1980, according to census data. Meanwhile, the populations of Atlanta and Miami-Fort Lauderdale more

than doubled; Jacksonville and Nashville grew by more than 70 percent (see chart 3 on page 11).

In 1994, the *Economist* magazine reported that Louisiana was economically lagging the rest of the Sunbelt, not least because



Michael Hecht

CEO of Greater New Orleans Inc.

You call New Orleans an asset that historically had great fundamentals but poor management. What do you mean?

Those fundamentals are three—the river, energy, and culture—three things nobody can ever replicate because God’s not making any more of them. Ironically, those very riches are what allowed us to be so decadent. We were merely toll takers on the river, and we were sitting on top of oil and gas, and so it was the curse of riches. Now it’s like we’ve brought in new management, and we’re managing the asset better, extracting the value out of it.

Is there resistance to this “new management”?

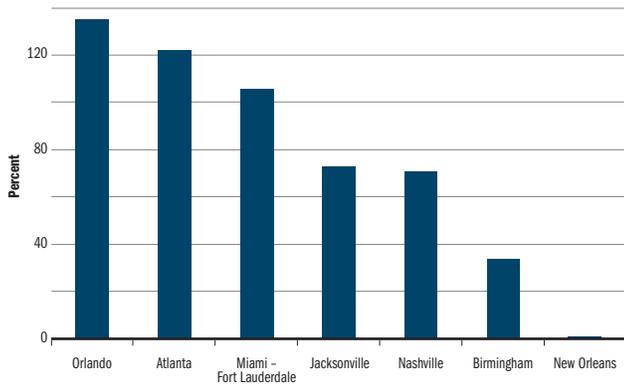
No. There was resistance before. I personally as a yuppie have never been more welcomed than I’ve been in New Orleans. The level of intellectual and, particularly, emotional feedback and support I get is extraordinary. Probably about nine out of 10 people who are in New Orleans now are here by choice. We’re all bound by this homesteader mentality; we want to justify our decision. And I think that’s a real competitive advantage for us.

How is New Orleans’s traditional image affecting economic development?

One of our challenges is broadening the brand, having people appreciate New Orleans not just as one of the most culturally rich places in the country, but actually as one of the best places to start a company or start a family, which objectively it is today. But that flies in the face of “the Big Easy” and “the City That Time Forgot.” And so there’s a big rebranding stone to have to push on this. ■

Q&A

Chart 3
Population Growth in Selected Southeast Cities, 1980–2005



Note: Growth rates are for metropolitan statistical areas.
Source: U.S. Census Bureau

of “stupefyingly bad leadership.” The same publication in 2000 said Louisiana politicians “were assumed to greet anyone who tried to do business in the state with a wink and an upturned palm.”

Some south Louisiana officeholders have been jailed since Katrina, contributing to changing perceptions of the state and New Orleans.

Seeing New Orleans transform

Count Matt Schwartz among those whose perceptions changed. Schwartz and his partner and fellow Tulane University alumnus, Chris Papamichael, started a real estate business, the Domain Cos., in New York in the early 2000s. They moved to New Orleans after Katrina to develop mixed-income residential complexes. “Then we

started seeing a transformation of New Orleans,” Schwartz said.

Between 2000 and 2012, the number of Orleans Parish households earning under \$35,000 annually declined by a third, according to census data gathered by the New Orleans Business Alliance. At the same time, the number of households earning \$75,000 or more climbed about 25 percent. Schwartz and Papamichael also saw

new streetcar lines, rebuilt levees, other infrastructure projects, and post-Katrina redevelopment tax breaks.

Then real estate developers saw a \$2 billion medical complex going up. Project organizers predict the complex will create 20,000 direct permanent jobs. Because of construction projects such as this, Domain shifted toward higher-end development. The firm’s first such New Orleans project, a planned \$200 million condo and retail project in the central business district, began construction of its first phase this June.

Developer Gelderman’s thinking is similar to Schwartz’s. He and his wife, Katherine, are converting a 175-year-old building into apartments with monthly rents up to

Continued on page 15



MIKE BRYAN is a vice president and senior economist in the research department of the Atlanta Fed.



SANDRA GHIZONI is a senior economic research analyst in the research department of the Atlanta Fed.

Atlanta Fed's New Orleans Branch Opens a New Museum Exploring Financial Institutions and Trade

Thanks to its strategic location near the mouth of the Mississippi River, New Orleans has been a trading center for centuries. What is more, the city “is built on a financial infrastructure that has roots more than a millennium old,” says Mike Bryan, a vice president and senior economist at the Atlanta Fed. Bryan and Sandra Ghizoni, an Atlanta Fed senior economic research analyst, helped plan a museum that tells the financial history of New Orleans. Bryan and Ghizoni conceptualized the museum’s theme—finance and trade—organized and wrote about the topics, and located and acquired museum artifacts. Other staff from the Atlanta Fed and the New Orleans branch helped bring the museum to completion.

The Museum of Trade, Finance, and the Fed opened this summer in the New Orleans Branch of the Atlanta Fed. The museum explores the cultures that have traded in the city as well as the financial institutions that have grown up around the trade. Bryan and Ghizoni talked with *EconSouth* about the museum.

EconSouth: *Mike, how did you, as an economist, get involved in planning a museum?*

Mike Bryan: Dave Altig [Atlanta Fed executive vice president and director of research] indicated that the Bank wanted to put an educational facility in the lobby

of the New Orleans Branch, and he asked if I wanted to get involved and what I would put there if it were up to me. And

“New Orleans was once as big as New York as far as being a banking capital.”

that’s how this project got going.

Sandra Ghizoni: Mike then asked me if I wanted to work on this project. I was very interested because I like history and I like museums in general. It was a good opportunity for me to work on doing some historical research and creating something permanent.

ES: *What was your vision for the museum?*

Mike: The first thing we had to give careful consideration to was the audience we wanted to connect with. The New Orleans Branch is located within a half mile of a number of museums, which meant there was a great opportunity to attract New Orleans tourists. When we thought about how people who come to New Orleans want to experience the city, we decided to integrate the story of the Fed into tourists’ wish to know more about the city. So the museum focuses on the city’s



The museum at the New Orleans Branch uses a variety of artifacts, such as the currency shown above, to explain how trade and finance helped shape New Orleans, and how the city in turn played a role in shaping trade and finance.

(1) Henry Clay
(Picture on this \$10 state banknote)

(2) Nicholas Biddle
(Signed this \$10 Bank of the United States banknote of 1834)

Biddle was the president of the Bank of the United States who championed the bank's benefits to Congress. Indeed, the bank was profitable, provided the nation with a stable money, and provided oversight to state-chartered banks. His defense of the bank was successful in Congress, which supported the bank's recharter.

history, but it really tells the story of trade in general and of all the financial institutions that are required to facilitate trade.

By telling the story of trade in New Orleans, the museum prompts visitors to think about why it is that all these financial arrangements and institutions are important for economic prosperity and to then take that understanding and apply it to a central bank and how a central bank can strengthen that infrastructure.

When people come to understand the importance of the city's financial infrastructure, when they know the various bits and pieces and where they came from and what they do, then they understand better what it means to be a financial regulator or a monetary authority.

Sandra: There was such a mix of cultures that people had to work out their economic situations to carry out their trading. In the 1800s, for example, the Africans, Spanish, the French, the Native

Americans, the British—everybody was coming into one place, and this rich history lent itself well to tell an interesting story about the institutions of trade.

Mike: When you think about financial innovation and the history of trade around the globe, these sorts of places have always been very, very important. All the major financial innovations that we can talk about—including banking, insurance companies, money, coinage, central banks, the list goes on—if you try to find where these institutions originated, you're always led back to some ancient port, where the institution became advantageous to trade, and it's part of what we now take for granted as a financial infrastructure.

Sandra: We talk about some of those ports in the museum where some form of banking took place: China 1,000 years ago, Florence's international banking endeavors in the 15th century, and central banking in 17th-century Amsterdam. At

each of these trade hubs, some financial innovation took place in order to solve the trade problems of the time.

ES: What surprised you in the process of fleshing out the concept for the museum?

Mike: One thing that surprised me is how easily the story came together. I knew the story of trade would work, but being able to connect the various bits and pieces of the national financial system to the history of New Orleans and to the history of trade—it really all fit together easily. It was more a matter of crafting the story and getting it down to a size that could fit into a small facility like the New Orleans Branch lobby than it was trying to dig up information to make the story cohesive.

If anything, topics kept presenting themselves. We'd say, this is on point and this is on point—maybe we can tell this story, too. It became pretty clear that we weren't going to be able to tackle all of this, so there's a growing online resource

Displays in the museum (shown below) outline the events and individuals who occupied key roles in New Orleans' financial and economic history.



that we'll continue to add to. [Currently in progress, this information will be posted on frbatlanta.org.] That will tell a rich story to those who are interested.

Sandra: When I first started, I didn't really know very much about the history of New Orleans, and this idea that Mike had about trade and the institutions that came out of it sounded to me like a very narrow topic. But in fact, there is a lot of good information that supported this approach. I thought I was going to have to stick to banking- and central banking-type history, but I was happy to discover that all these topics were involved in the museum.

ES: *How and why does this Federal Reserve museum cover the cotton trade?*

Sandra: A whole banking sector grew out of the trade in cotton. New Orleans was once as big as New York as far as being a banking capital. This is something that many people don't know a lot about.

Mike: New Orleans was for a time the center of one of the most important commodity trading organizations in the world. Cotton was *everything* for a time. You can look around New Orleans and still see remnants of that.

We have three characters in the museum—the coin melter, the cotton classer, and the river pilot—to represent, respectively, the payments system, supervision and regulation, and monetary

“Cotton was everything for a time.”

policy. The intent of these characters is to make clearer the connection between the things the Federal Reserve does. The cotton classer, for example, was a profession that ultimately gave rise to a verification of a variety of things. Not only did cotton classers tell you what the various qualities of cotton were, but they helped facilitate and guarantee the trade. But these characters are only revealed when a visitor puts on the special glasses that the museum provides. The idea here is that one needs to look deeper into the story to get a clear understanding of how the Federal Reserve operates to strengthen our financial infrastructure. ■

Editor's note: To learn more about financial institutions and trade in New Orleans, visit the Museum of Trade, Finance, and the Fed in the lobby of the New Orleans Branch of the Atlanta Fed at 525 St. Charles Avenue. Hours of admission are Monday through Friday, 9 a.m. until 4 p.m. From frbatlanta.org, you can also download a map that leads you on a walking tour of the city's historic financial institutions.



Continued from page 11

\$6,000, according to news reports. Investments like these in New Orleans have soared from “almost zero to some pretty big numbers,” Schwartz said.

Stemming the flow of the young

Developers are intrigued by changing demographics in NOLA that resulted from an array of forces. One is New Orleans’ start-up boomlet, fueled by efforts like Tim Williamson’s Idea Village. A native New Orleanian, Williamson graduated from Tulane in the 1980s and then, like many of his college-educated friends, left New Orleans. After helping a media conglomerate launch Internet operations in several cities, Williamson came home in the late 1990s.

He found little tech activity. So Williamson and a group of partners set out to establish a nonprofit to help entrepreneurs, but they struggled to find support and money. Williamson recalled incredulously that the head of the city’s chamber of commerce declined even to endorse the concept, asking “What if it fails?”

When Williamson’s group finally enlisted its first investor, the investor’s motivation wasn’t about entrepreneurship or start-up investment. Rather, the investor told Williamson she’d back him if he could help generate the sort of jobs that might bring her daughter and her daughter’s three children back to New Orleans.

“The clarity of that was brilliant,” Williamson said, pounding a table for emphasis. “The community was sick of its kids leaving.”

Now 11 years old, the Idea Village says it has supported New Orleans en-

trepreneurs who have created more than 2,000 local jobs.

Starting up, starting over

As Williamson and many have observed, New Orleans after Katrina became a start-up city, or certainly a start-over city. Yet few important things come easy in the Big Easy (a nickname locals rarely use). Questions include: Will the momentum last? Is the economy diverse enough, or will reliance on old industries eventually sap the newfound energy? Can New Orleans retain its unique character as it changes? How will the region’s vanishing wetlands affect the metropolitan area in the future? (See the sidebar on page 10 for more details.)

Crime and poverty remain problematic. For most socioeconomically disadvantaged New Orleanians, life has not improved despite the city’s economic gains, the GNOCDC’s Plyer pointed out. The larger point, though, is that New Orleans has made substantial progress since it marinated in a toxic soup left by Katrina.

“There’s some level of confidence everyone has that ‘I did it.’ They did something remarkable,” Williamson said. “Whether they opened a business, got their house rebuilt, or helped their grandmother or their school, when you get down to it, everybody thinks, ‘I did something I didn’t think I could do.’” ■

This article was written by Charles Davidson, a staff writer for EconSouth.

SMALL BITES TO FILL BIG APPETITES

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Regional Update: Modest Expansion Ongoing

On balance, the view from regional data and intelligence shared by our business contacts indicated that the southeastern economy continued to expand at a modest pace during the third quarter of 2013. Real estate, tourism, energy, and autos are components of the regional economy that continue to do very well, and manufacturing and employment are growing at a slow rate.

Home growth continues

Residential real estate has been recovering at a solid pace across the district as home sales, prices, and new construction continued to grow. According to the Atlanta Fed's regional housing survey, half of the responding brokers said that sales were up significantly in June compared with a year ago, and more than half of homebuilders reported sales were up slightly (see chart 1). The outlook for home sales and construction growth over the next several months remained positive, as more brokers and builders expect sales to increase over the next three months compared with a year ago.

However, in some markets, contacts have questioned the durability of the recovery in the sector. These contacts expressed concern that the rebound in home prices is driven mainly by constrained supply and that demand alone may not be vigorous enough to sustain future growth. Still-limited credit availability for many developers and smaller builders has been noted as one of the main factors slowing supply growth. Both builders and brokers in our regional housing survey continued to report generally sustained declines in home inventories (see chart 2).

Manufacturing sector expands

Manufacturing activity in the district has also been strengthening. The Southeastern Purchasing Managers Index, produced by Kennesaw State University, indicated expansion in the manufacturing sector, with growth in new orders and production accelerating (see chart 3). A number of our manufacturing contacts, especially larger companies and those in the auto sector, reported higher demand for their products.

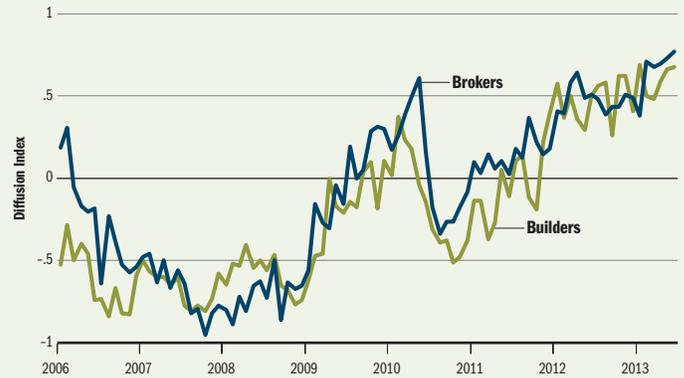
Activity in the energy sector remained robust, with substantial capital investment expected across the Gulf Coast. Significant capital investment is also being made in the utility sector, as coal-fired plants are being replaced with natural gas and nuclear generation.

Sequestration's effects limited

Contacts across the Southeast reported that the impact of sequestration on the private sector to date has been limited mainly to organizations that depend on federal funding or government contracts (see "On the Ground" on page 18). However, concerns about the potential negative effects of sequestration on the broader economy appear to have increased among some of Atlanta Fed contacts as they saw a pickup in furloughs in July.

Chart 1

June 2013 Southeast Home Sales versus a Year Earlier



Source: Atlanta Fed business contact poll

Chart 2

June 2013 Southeast Home Inventory versus a Year Earlier



Source: Atlanta Fed business contact poll

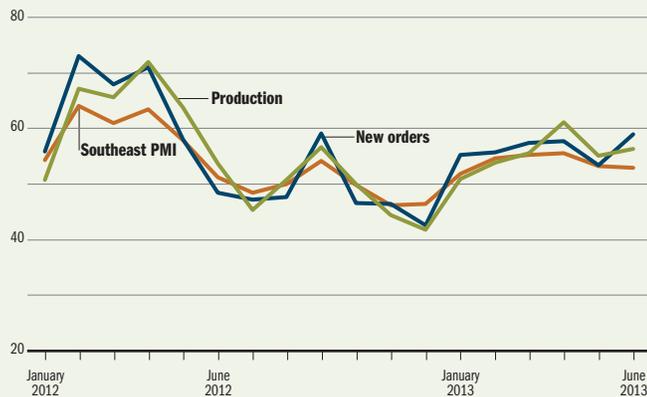
Hiring plans remain subdued

No major shifts in hiring plans have been detected. Payroll growth has slowed somewhat in the district over the past few months, with payrolls increasing by 10,100 in May and 14,600 in June compared with the average gains of 33,400 for the first four months of the year. However, the June payroll number was held back by a 15,700 decline in government jobs in Tennessee.

The unemployment rate in the district held at 7.6 percent in June, the same as the national rate. However, some southeastern states (Georgia, Mississippi, and Tennessee) still have unemployment rates significantly higher than the national rate.

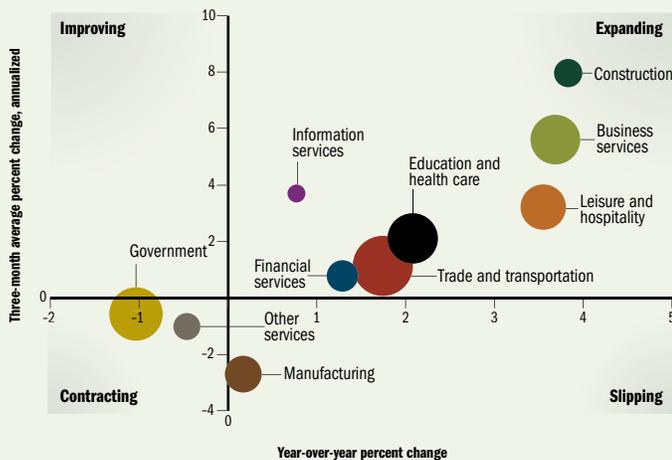
Looking at major industries, construction employment in the district had the strongest momentum in June amid the ongoing

Chart 3
Southeast Purchasing Managers Index



Note: A reading above 50 indicates an expansion in the region's manufacturing sector. A reading below 50 indicates a contraction.
Source: Kennesaw State University Econometric Center

Chart 4
Sixth District Employment Momentum by Industry



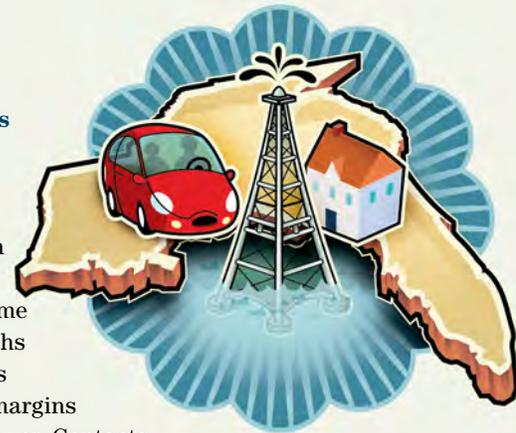
Note: Data are through June 2013.
Source: Atlanta Fed calculations

recovery in the real estate sector. On the opposite side of the hiring spectrum, government payrolls continued to decline, and the government sector remained the laggard among major industries in terms of employment momentum (see chart 4).

In terms of labor supply, contacts continued to report difficulty finding qualified workers for certain high-skilled positions in information technology, engineering, and accounting, as well as for some low-skilled jobs. Our business contacts reported an increase in firms hiring talent away from competitors.

Input prices and wages

According to our July business inflation expectations survey, costs were up 1.8 percent from a year ago and are expected to grow at the same pace in the next 12 months (see chart 5). Businesses continued to note tight margins and very little pricing power. Contacts that recently saw their input costs decline due to the moderation in some commodity prices do not intend to pass on lower costs to their customers, preferring to hold onto higher margins. Wage pressures remain low, except for the industries where workers are in short supply, such as IT and construction. Wage increases in the 2 percent to 3 percent range are still standard, with the distribution of increases weighted toward workers whose skills are in high demand.

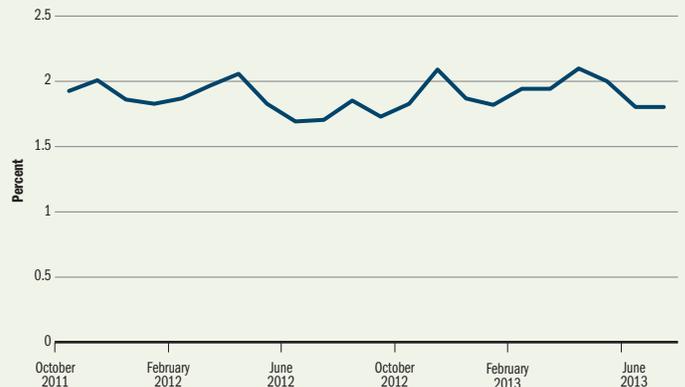


Investment and capital

Companies continued to invest in automation to improve efficiencies and reduce costs. Also, there have been reports that manufacturers that practiced the “fix it when it breaks” approach during the downturn and recent recovery are now engaging in regular maintenance again. However, reports of major capital expansions are still rare with the exception of firms and suppliers in the energy and automotive sectors.

Most businesses that the Atlanta Fed contacted are not changing their borrowing decisions in response to the recent rise in interest rates. However, some reports indicate that

Chart 5
Firms' Year-Ahead Unit Cost Expectations



Note: Data are through July 2013.
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

companies have begun engaging more actively in interest-rate hedging and have been increasingly asking for longer-term, fixed loan rates.

Near-term business expectations

The outlook among our business contacts across the Southeast remained optimistic. Most industries continued to grow, and the majority of contacts expect overall activity to be sustained at current or higher rates over the next three to six months (see chart 6).

This growth is expected to be driven by a combination of company-specific factors—such as the introduction of new product lines and service enhancements—and overall improvement in economic conditions as the real estate market continues to recover, credit availability increases, and consumer sentiment improves.

It bears watching whether the optimism expressed in Atlanta Fed polls and conversations with business leaders will translate into additional economic activity and a possible exit from this “steady-as-we-go” period. ■

On the Ground: An Interview with the Atlanta Fed’s Regional Executives

How is sequestration affecting business in your region?

Tom Cunningham, regional executive at the Atlanta Fed: The effects of sequestration depend on location. If you are in a locality that is dominated by a business or governmental entity that has been directly affected by the sequestration, you could be feeling some serious pain. If that isn’t the case, you aren’t.

The lack of a dramatic effect on the national economy is the result of a cumulative lack of effect on local economies. But the cuts to spending are real and cause real disruption wherever the spending has dried up. Research funding, for example, has taken a big hit. Institutions that depend on federal funding for research are scaling back, which can have serious consequences on portions of some universities, but it is often hard to see, given the large amount of churning among projects that would occur anyway. The aggregate numbers will look weaker, but whole departments are not shutting down.

The same holds true in areas of heavy government contracting. Specific

projects get defunded, and aggregate numbers look weak. If your job depends on that particular area that is no longer supported, you have a problem. But again, on a larger level, it is often difficult to identify the specific consequence of the sequestration from the everyday noise of the overall economy. One of the idiosyncratic cases where the consequence was clear was in air traffic control. Many Georgia towers were going to be closed, but the ensuing uproar from the general aviation population led to a reconsideration of the funding process, and the towers remain open.

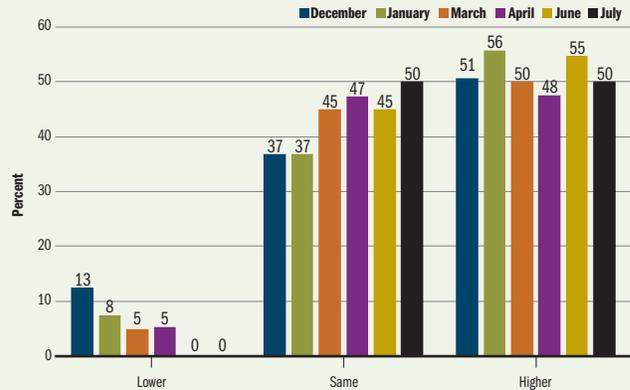
Lesley McClure, regional executive at the Birmingham Branch of the Atlanta Fed: This is a really interesting question. Although many businesses aren’t seeing any impact from sequestration, where it matters, it matters a lot. What I mean by that is that in some parts of the state, the impact appears to be negligible. I’ve spoken with contacts in construction and manufacturing, and sequestration isn’t on their radar at all. Yet Alabama is about seventh on a list of states hardest hit by

Department of Defense civilian-worker furloughs. More than 15,000 workers will be taking furlough days in Huntsville, 3,000 in Anniston, and several thousand more in Dothan and Montgomery.

Earlier this year, the measurable impact was muted as individuals and businesses really hoped there would be a resolution. But as the reality of sequestration sinks in, the effects are showing on the bottom line. I’ve already heard from a retail contact that traffic in his Huntsville store is down by a third. The trickle-down effect goes beyond reduced consumer spending for those directly furloughed; it includes job losses in companies providing services to defense and aerospace installations such as janitorial, groundskeeping, and food service contractors.

And the impact is not limited to defense and aerospace. The president of the University of Alabama-Birmingham said that cutbacks are costing the university \$15 million annually in research dollars. So far they have not cut jobs, but it’s not clear how long that can continue.

Chart 6
Firms’ Outlook for Near-Term Growth



Note: Respondents supplied their outlook for growth during the next three to six months compared with their current rate. Percentages may not total 100 as a result of rounding. Source: Poll of Atlanta Fed directors

Because of the geographic- and sector-specific nature of the impact of the cuts, it's hard to generalize, but there is no doubt that thousands of Alabamians are being personally affected and businesses are holding back to see if any relief may be forthcoming.

Chris Oakley, regional executive at the Jacksonville Branch: Surprisingly, to date there has been little impact from sequestration on most of the businesses I talk with. As a matter of fact, when I ask about the sequester, contacts will often react with an, "Oh yeah, that did happen, didn't it?" Some even go so far as to add that given their worries about the nation's fiscal situation, any spending reductions are welcome, though most indicate they would have preferred a more thought-out and strategic approach.

I recognize, however, that there are enterprises—especially those that provide support to the military—directly affected and whose expectations for this year have been radically changed. Further, certain areas in this part of Florida are more likely to be affected because of the concentration of military operations and support. And related to that, many of the Department of Defense furloughs are only just beginning, so it's too soon to tell how individuals and economic measures like consumer spending will be affected.

Our contacts in South Florida reported no noticeable impact of the sequestration to date.

Lee Jones, regional executive at the Nashville Branch: Based on what we are hearing from our branch directors and REIN contacts, the impact of sequestration on private businesses in Tennessee up to now has been confined primarily to organizations that depend on federal funding or government contracts. Interestingly, within this somewhat limited group, the impact of sequestration as well as the responses to deal with it have been quite varied. The vast majority of contacts reported that private business

has yet to experience any real, noticeable impact from the sequestration.

Essentially, there are three geographic areas in the region that depend heavily on federal government funding. These are Clarksville, home of Fort Campbell and the Army's 101st Airborne Division; the Department of Energy's Oak Ridge National Laboratory (ORNL) complex in East Tennessee; and Arnold Engineering Development Corporation (AEDC) in middle Tennessee at Arnold Air Force Base in Tullahoma.

Branch Director Kathleen Calligan is president of the region's Better Business Bureau and spends a good deal of her time working with businesses and military personnel in the Clarksville area. She reports that private business/consumer activity in the market has not declined over the past six months. Similar sentiments were also reported for the areas surrounding the ORNL and AEDC facilities, where initially there were great concerns over the sequestration. In Oak Ridge's case, one of the branch's contacts had assumed that the cuts were forthcoming and had already experienced almost 5 percent in staffing reductions during the past two years. More recently, contacts indicate that federal and contractor staff have since taken additional cost-saving measures such as cutting back on travel and training, delaying non-essential procurements, and eliminating performance awards for staff. The result has been that many entities have avoided furloughs and layoffs that have occurred in a number of government agencies elsewhere. We have heard similar stories of minimal impact with respect to the AEDC complex in Tullahoma.

This is not to imply that the sequester and federal spending cuts have not had serious effects, most particularly in the health care sector. Many hospitals and academic medical centers have been dealing with sequester-related and other federal funding reductions in reimbursements for Medicare and Medicaid, along with declining support for research through the National Institutes of Health.

For example, Vanderbilt University Medical Center in Nashville recently announced it is targeting \$250 million in budget savings and by some estimates close to a 1,000-staff reduction during two years to plug the shortfalls in revenue resulting from the sequester.

Our two East Tennessee directors—Jenny Banner of Knoxville and Billy Carroll in Pigeon Forge—reported some sporadic effects of sequestration. These included the National Park Service's closing three campgrounds and a couple of other recreational amenities in the Smoky Mountains, and layoffs/furloughs and other cutbacks in federal public defenders' offices and the IRS service center. Also, the University of Tennessee's College of Business expects an 80 percent reduction in enrollment from military personal in its executive education programs.

But overall, a vast majority of our contacts reported seeing little to no impact from the sequester's spending reductions. As one East Tennessee contact put it, the main sequestration impact he noticed was the traditional fighter jet flyover at the Bristol Motor Speedway.

Adrienne Slack, regional executive at the New Orleans Branch: Initially, sequestration was barely noticeable in the New Orleans zone. However, as projected, the implementation of various cost-saving measures began revealing themselves in various sectors of the economy. Companies engaged in routine maintenance work for government agencies recently noted a 10 percent reduction in that portion of their business. Many government agency services reduced the days of the week and hours of the day they are available to the public. The reduction in capacity is also evident in the IT and petrochemical industries through delays in permitting processes. While the effects are now palpable, the reports are not widespread. As the year progresses, we will continue to monitor the zone for planned furlough implementations and reduced service capacity. ■

Business Inflation Expectations Survey

Year-ahead inflation expectations were 1.8 percent in June and July and have remained relatively flat since January, hovering around the Federal Reserve's 2 percent target (see chart 1). Long-term inflation expectations (measured quarterly) fell to 2.8 percent in July from 2.9 percent in April (see chart 2). Firms reported continued improvement in sales levels and profit margins in June, a trend that began in April. However, respondents reported a decline in sales levels in July (see chart 3). Firms reported rising year-over-year unit costs, from 1.7 percent in June to 1.8 percent, on average, in July.

Assessing the sales gap

On average (weighted by industry share of gross domestic product, or GDP), respondents indicated in June that unit sales are approxi-

Chart 1
Year-Ahead Inflation Expectations and Uncertainty



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Chart 2
Long-Term Inflation Expectations and Uncertainty



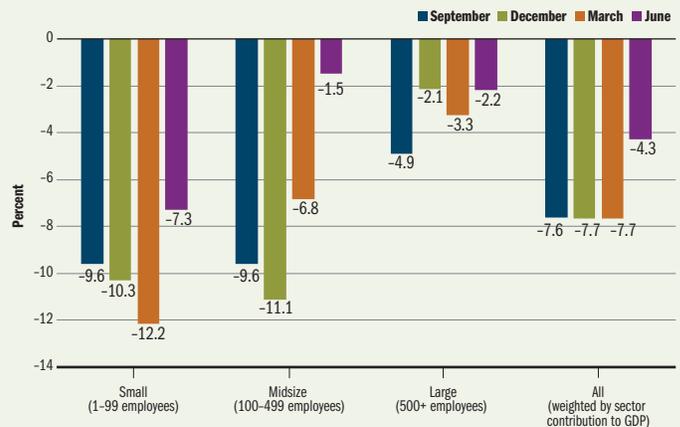
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Chart 3
Sales Levels and Margins



Note: A reading in the diffusion index greater than zero indicates better-than-normal activity.
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Chart 4
Percentage of Firms Above/Below Normal Sales Levels



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

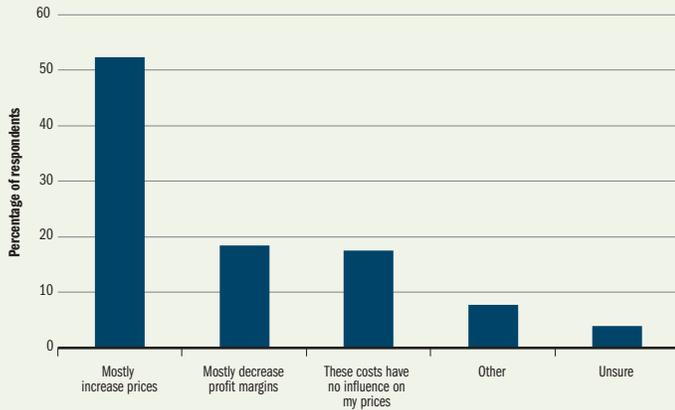
mately 4.3 percent below normal, a notable improvement from the March measure of 7.7 percent below normal. The improvement was shared among firms of all sizes, with small firms seeing the largest improvement (see chart 4). Midsize firms noted a considerable narrowing of their sales gap (from 6.8 percent below normal in March to 1.5 percent below normal in June). Large firms remained fairly stable, with an average gap of around 2.2 percent below normal.

Special questions

In June, the Atlanta Fed asked survey participants to assign likelihoods to various price change scenarios over the coming year. Respondents' mean expectation (weighted by industry share of

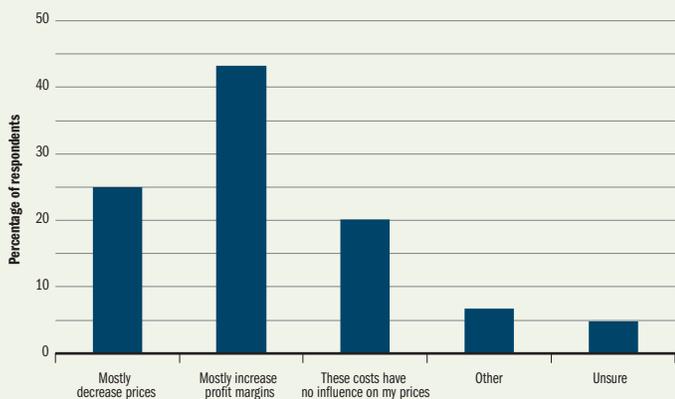
Data Corner: Regional PMI Update

Chart 5
Firms' Responses to Increased Materials Cost



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Chart 6
Firms' Responses to Decreased Materials Cost



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

GDP) for the change in the average price of their products and/or services over the year ahead was under 2 percent.

The July question focused on commodity cost pressures. Half our panel was asked how they would respond to “a 10 percent increase in raw materials costs” and the other half how they would respond to “a 10 percent decrease in raw materials costs.” Of those who received the cost-increase question, 52 percent said they would “mostly increase prices” in response (chart 5). Of those who received the cost-decrease question, 43 percent said they would “mostly increase profit margins” in response (chart 6). ■

The region’s manufacturing index indicated continued expansion in the manufacturing sector heading into the third quarter. The Purchasing Managers Index (PMI) for July came in at 50.2 points, marking the seventh consecutive month of expansion. The Southeast’s overall index fell 2.7 points last month, down from 52.9 in June. Manufacturing activity continues to expand, albeit slowly.

Although growth in Southeast manufacturing has shown signs of recent deceleration, manufacturing has picked up speed in the nation as a whole. The latest Institute of Supply Management’s (ISM) manufacturing index rose 4.5 points in July to 55.4—a marked improvement over the 51.5 averaged in the first half of the year. (The Southeast PMI is not a subset of the national ISM index.)

The Atlanta Fed’s research department uses the Southeast PMI to track manufacturing in the region. The survey is produced by the

Southeast Purchasing Managers Index



Note: Data are through July 2013. A reading above 50 indicates expansion. A reading below 50 indicates contraction.
Source: Kennesaw State University Econometric Center

Econometric Center at Kennesaw State University. It tracks current market conditions for manufacturing in Alabama, Georgia, Florida, Louisiana, Mississippi, and Tennessee. This PMI is based on a survey of representatives from manufacturing companies in those states and analyzes trends concerning new orders, production, employment, supplier delivery time, and inventory. A reading above 50 means that manufacturing activity is expanding, and a reading below 50 means that activity is contracting.

Although still in expanding territory, the PMI ticked down for the third consecutive month since posting a reading of 55.5 in April. July’s decline is the result of sharp decreases in new orders and production. New orders fell 11.8 points to 47.2, and production dropped 10 points to 46.2. Also contributing to July’s decrease was lower hiring activity, which fell 1.5 points to 54.7.

Survey respondents also offered their outlook over the next three to six months: 34 percent expect production to be higher over that time frame, and 21 percent expect less production. Though that percentage shows slight improvement, the subdued responses during the last three months imply a restrained outlook for the manufacturing sector for the remainder of 2013. ■





BIG DATA: Government's Next Frontier?

Some government agencies have implemented big-data initiatives that target certain populations. From evaluating the risk of recidivism among prison parolees—helping parole officers better target their interventions—to helping colleges identify potential dropouts well before they actually drop out, these initiatives benefit the people they target while helping the organizations achieve efficiencies otherwise unavailable.

Everywhere we turn these days, we bump up against “big data.” It’s in the news, sometimes in ominous-sounding contexts. It’s on our computer screens every time a website suggests items we might like because of something we’ve purchased before. It’s on our smartphones when we get a tweet from our bank notifying us of “possible fraudulent activity.” Big data, data mining, predictive analytics, data analytics—all of these terms refer to the same idea: that people or companies with the right access, analytical tools, and training can comb through large repositories of information to find patterns that can help them predict outcomes and make informed decisions.

In the context of shrinking government budgets, the public sector is also starting to turn to big data to help get the job done. Carolyn Bourdeaux, associate professor of public management and policy at the Andrew Young School of Policy Studies at Georgia State University in Atlanta, has a particular interest in the subject. “Big data is one of the first breakthroughs I’ve seen in a long time, with government able to achieve some real efficiencies,” she said. “I really believe it’s the new frontier in new government services.”

Bourdeaux pointed to two big data initiatives in Georgia that have shown great promise:

- In 2003, the Georgia State Board of Pardons and Paroles rolled out the nation’s first big data approach to assessing a parolee’s risk to reoffend, allowing the board to manage a growing number of parolees with a shrinking number of parole officers.
- Meanwhile, Georgia State University (GSU) piloted a handful of big data projects in the mid-2000s based on student information and saw its graduation rate increase by about 35 percentage points in the past decade.

Big data gets out of jail

Sometimes big data move beyond efficiency gains and help point to brighter futures for people and society. Consider the case of Darryl Jones, a first-time felony offender. Arrested in 2011 for a simple unarmed burglary of an unoccupied residence, the 24-year-old was sentenced to five years in prison. He joined about 55,000 other inmates already in Georgia—fifth in the nation for number



010001001111
010001001111

Source: National Institute of Corrections

19%

How much Georgia's incarceration rate exceeds the national rate (403 per 100,000)

479

Per 100,000 of Georgia's population in prison (as of 2010)

of sentenced prisoners. But Jones's status as a first-time offender, along with other factors, gives him a pretty good chance at parole. Entering the parole system would benefit not only Jones but also the prison system and the state's taxpayers.

In 2011, it cost about \$51 a day to maintain a single prison bed, according to the Department of Corrections. Supervising a parolee, at about \$2.90 a day, is significantly less expensive. This is where the Georgia State Board of Pardons and Paroles (parole board) comes in. "The parole board in Georgia is a safety valve for the prison population," said John Prevost. Prevost, now retired, worked for the parole board and co-led the big data project to automate the process of assessing parolees' risk to commit more crimes—or their "risk to reoffend."

Unfortunately, research shows that about 30 percent of parolees will commit another crime or otherwise break the terms of their parole and return to prison. Because of the financial and social costs that are incurred when this happens, the parole board must predict as accurately as possible each parolee's risk. For many years, parole officers relied on a paper-based tool still used by many parole boards nationwide to systematically evaluate the risk. The process was burdensome and costly, said Prevost, and involved some subjectivity on the part of the parole officers. The officer would use the score derived from filling out the instrument's forms to readjust the parolee's level of supervision, if necessary.

The parole board had a major breakthrough in 1998 when it computerized its case management system. Parole officers began using laptops to enter data related to parolee performance and parolee-officer interaction. They continued to use the pen-and-paper method for case assessments, but were starting to amass a wealth of real-time data on thousands of parolees.

In 2001, the parole board and the Department of Corrections formed a workgroup to find an application for this data (and prisoner data) that would take some of the burden of evaluating the risk off the parole officers so they could better spend their time on supervising their cases. The project was co-led by Prevost and Tammy Meredith, a criminologist and data analytics specialist. The work group, which also included criminal justice researchers, parole officers, statisticians, and IT specialists, analyzed 6,000 cases that were completed in 2001. "We looked at everything about a parolee," Meredith explained: demographics, arrest history, prison history, failed and passed drug tests—everything the prisoner/parolee has

done from the point right before he or she entered the system. The workgroup eventually uncovered 45 risk factors that helped predict a parolee's likelihood to commit another crime. Some factors were static—such as age at first offense and gender—and others were dynamic—such as attitude and behavior during supervision or employment. From this information, the group created a set of algorithms that, when run against live data, would predict a parolee's risk.

Prevost said that possibly the most important function of risk instruments is to identify those offenders who, like Jones, do not need close supervision. Criminology research has found that the over-supervision of low-risk parolees is linked to a lower supervision completion rate. "For example, if we place low-risk parolees in programs that their risk levels indicate they do not need, we are exposing them to high-risk parolees," Prevost said. "One of the highest associations with criminality is a person's associates."

Two years after the work group began, in 2003, the Georgia State Board of Pardons and Paroles launched the Georgia Parolee Risk Assessment tool, the first automated tool in the country. Every night, the main computer would crunch the numbers and reevaluate risk for every parolee in the system. If a parolee's score rose over a certain threshold, the system automatically sent a notification to the case officer, who would then use this information—or not—to make changes in supervising the parolee.

But the project wasn't done. In 2005, the parole board was awarded a National Institute of Justice grant to conduct a more in-depth analysis, and the work group resumed analyzing the data. This time, they researched 38,000 completed parolee cases and looked at more factors. They wanted to determine whether certain parole officer responses to parolee behaviors got better outcomes than others. If a parolee fails a drug test, for example, the supervising parole officer can respond in one of several ways: do nothing, issue a verbal reprimand, swear out a warrant and have the parolee arrested—which often results in parole revocation—or refer the parolee right away to assessment and treatment.



Source: Chronicle of Higher Education

The work group found evidence that any completed treatment program—whether it is drug treatment, educational, mental health, or even cognitive skills—reduces a parolee’s risk to fall back. The work group also uncovered 200 data elements connected to a parolee’s likelihood (or reduced likelihood) of committing a new crime. The work group launched the new instrument—the Parolee Automated Risk Instrument—Generation 2, or PARI-2, in 2010.

Although the PARI-2 is the only automated parolee risk instrument in the country, “there’s nothing magical about it,” assured Prevost. “It’s the same kind of prediction done in many other fields but has not been often applied in the corrections field.” He attributes this dearth to the basic human assumption that we can size people up. “We let our emotions get in the way,” he said, “and we want to make a gut decision. But there’s been quite a bit of research that instruments are far more accurate.”

Big data goes to school

Another case of a big win for big data: higher education. On the Saturday after her first week of class at GSU, freshman Maria Gonzales received an e-mail notifying her that she’d been dropped from her classes. Maria, a first-generation college student from a low-income family, was just \$400 shy of paying her tuition and fees for the semester, so the university was required to drop her. But by Monday morning, Maria was back in class as a registered student. She didn’t sell her car or rob a bank. Instead, she received a bridge grant from the university to cover the rest of her fees and keep her in class. Maria was the beneficiary of big data.

Over the past few years, GSU, a large public university in downtown Atlanta, has launched several programs, including a handful of big data pilots, designed to help students stay in school, explained Tim Renick, a professor and associate provost. In many ways, GSU is a typical urban public research institution. For one, it serves a diverse student population. Of a total of 32,000 undergraduates, 40 percent are first-generation students, 51 percent are on Pell grants, 60 percent are nonwhite, and 33 percent come from families with incomes of under \$30,000.

But in one very important way, the school is not typical. At a time when many public colleges and universities are being criticized for their dismal graduation rates—only about 30 percent—over the past decade, GSU has brought its rate up significantly, from a little more than 32 percent in 2005 to around 67 percent in 2013. “We are in the top five for the most rapid increase in our graduation rate,” Renick said. “Our goal is to bring it up another 3 percentage points this fall.” He credits in large part an early-alert program the school has implemented.

“We have become one of only three schools in the country to have a large academic and advisement tracking system that very much relies on big data,” he said. That system is designed to intervene before a problem occurs. Every night, the school’s



31%
National four-year graduation rate for public institutions (of students starting in 2004)

24%
Four-year graduation rate for Georgia public institutions (of students starting in 2004)

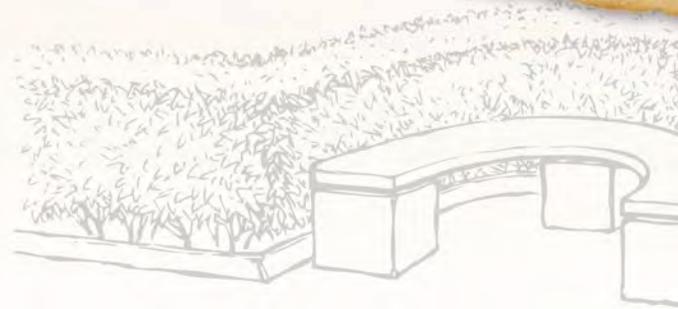
computer system mines student financial data, looking for students who are at risk for dropping out for financial reasons.

The Panther Retention Grant program was piloted in the fall of 2011. Armed with a single donation from the university president and information from the data, Renick and others began calling some of the students who were dropped from the roster for financial reasons. “That first fall, we were able to help more than 40 students,” said Renick. “Some students actually hung up on us because they thought it was a joke.” The program has grown exponentially in the short time since the pilot. Last year, the program brought more than 1,700 students like Maria back to school, awarding them grants averaging less than \$1,000 each. “We’ve had large numbers of donations because people find the story compelling,” said Renick.

Not only are financial challenges uncovered, the school’s computer system also combs the data to flag students who are on track to drop out for academic reasons. “We took seven years of Georgia State student data—including over 2 million grades—and used those to develop analytics to indicate what students did that put them at risk for not graduating,” Renick explained. The school found that students who receive Ds or Fs in particular courses have an increased likelihood for dropping out. The computer program automatically notifies school advisers about those students. An adviser then contacts the student to set up a plan of action—either a tutoring arrangement with a student

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Innovative Strategies in Community Development



“It is not the strongest of species that survives...but the one most responsive to change.”

Charles Darwin



Darwin wasn't talking about community development, but he could have been. The field—as complex and diverse as the species he studied—is constantly evolving.

Community development practitioners are facing the familiar challenges of cuts to federal and philanthropic funding amidst a growing need among low-to-moderate-income (LMI) communities, explained Karen Leone de Nie, a director in the Federal Reserve Bank of Atlanta's community and economic development (CED) group. These practitioners have come up with creative ways around those challenges, many of which are playing out in the Southeast. Their strategies fall into three emerging themes—taking a holistic approach to community development, collaborating to increase capacity and boost impact, and using data to drive good decision making (see the sidebar).

A local success story goes national

There is perhaps no better example of a holistic approach than the revitalization of Atlanta's East Lake community. Today the

city's eastern-most neighborhood bears little resemblance to the place once disparagingly referred to as “Little Vietnam”—a moniker that reflected the neighborhood's violent past.

East Lake's transformation is well known among community developers. The neighborhood had languished for years in a cycle of concentrated poverty, crime, and low employment until Atlanta real estate developer and philanthropist Tom Cousins stepped in. “He brought a new model for doing community development,” said Shirley Franklin, the former Atlanta mayor who now heads Purpose Built Communities, a nonprofit consultancy that helps replicate the East Lake model in other struggling neighborhoods.

Cousins formed a nonprofit organization, the East Lake Foundation, and worked with residents, the Atlanta Housing Authority, and other stakeholders to transform the entire community. The model Cousins brought in called for razing the dilapidated East Lake Meadows public housing development and replacing it with mixed-income housing. It also included a charter school (the city's first), social services, and new retail investments. The East Lake Foundation also restored the neighborhood's aging East Lake Golf Club, now the permanent site of the PGA Tour Championship. The proceeds from the golf club help fund continued investments in the community.

Cousins may not have realized it at the time, but he was pioneering a new model for community revitalization—a holistic approach based on quality mixed-income housing, cradle-to-college education, and supportive community facilities and services. “It was the interrelationship of these elements that made the difference, that made it sustainable,” said Franklin. She further explained the importance of this holistic approach in *Investing in What Works for America's Communities*, a book of essays published by the Federal Reserve Bank of San Francisco: “Replac-

Using Data to Test and Tell

As the community development field seeks to “do more with less,” a focus on evidence-based decision making is taking center stage. The Greater New Orleans Community Data Center (GNOCDC) enables these types of informed decisions by aggregating, analyzing, and disseminating data about the southeast Louisiana region. The data center focuses its efforts on key areas such as disaster recovery, the regional economy, workforce development, and affordable housing.

Why the focus on data? Simply put, “we really believe that it can help improve effectiveness and efficiency across all sectors—the public, nonprofit, and private sector,” said George Hobor, a senior research fellow with the GNOCDC.

One important way a data-driven focus does this is by eliminating misconceptions and reducing uncertainty, he continued. Consider this example. In the years following Hurricane Katrina, New Orleans was rebuilding at a frenzied pace. It was a “build it and they will come” approach, said Allison Plyer, GNOCDC executive director. There was no data to guide policymakers or the housing industry about how many people would return or what their income level would be. “People were just building houses knowing that anything they built would get snapped up, and it did,” Plyer explained.

After several years, people started to question whether the city needed so many affordable housing units. The growing sentiment behind this questioning was that many of the low-income residents who had evacuated during Katrina did not intend to return, or they perhaps were unable to do so. Policymakers and others needed data to help flesh out the demand and need for low-income housing. The GNOCDC researched the issue and “what we found was that there was a great deal of demand,” Plyer said. Families were doubling or even tripling up to be able to pay the higher post-Katrina rents, she continued. “So it was clear from the data that there was a need for more units that were more affordable for low-wage workers, and that was a misconception we were able to address.” ■



ing housing would not attract families if the schools were in poor shape. Schools could not be expected to perform well in neighborhoods where children feared for their safety and showed up hungry and unprepared. And it is hard to reduce crime in neighborhoods full of unemployed high school dropouts.” These complex, interrelated problems spurred a departure from the traditional, siloed approach to community development.

After nearly two decades of hard work, East Lake’s transformation continues. The K–8 Drew Charter School is currently a top performer among Atlanta Public Schools, with 97 percent of fifth graders meeting or exceeding state standards for math. That figure was just 5 percent in the school that served that age group in the 1990s. Meanwhile, crime has fallen by 73 percent (90 percent for violent crime) and the employment rate for adults rose from just 13 percent to 70 percent, Franklin said.

In 2009, Cousins formed Purpose Built Communities to help other nonprofits replicate the model. In addition to bringing on Franklin as president and CEO, the nonprofit also has the backing of superstar financier Warren Buffett and retired hedge fund manager Julian Robertson. The organization is exporting the model nationwide, with projects under way in seven communities—including neighborhoods in the southeastern cities of Birmingham, Alabama; Rome, Georgia; and New Orleans, Louisiana.

New Orleans puts a bayou spin on the East Lake model

The nonprofit Bayou District Foundation is one of the Purpose Built partners working to repeat East Lake’s success in the Gentilly neighborhood of New Orleans. The distressed St. Bernard public housing development was damaged beyond repair by Hurricane Katrina. As the

city began to rebuild, local businessman Gerry Barousse Jr. saw an opportunity to effect lasting change in the struggling neighborhood. He, along with foundation partners Gary Solomon and Mike Rodrigue, set out to bring the various pieces of a mixed-income holistic model together, including workforce housing, educational resources, and recreation, Barousse said.

ECONSOUTH NOW PODCAST

Shirley Franklin, former Atlanta mayor and current head of Purpose Built Communities, discusses innovations in community development. On frbatlanta.org, select “Podcasts.”





Indeed, nonprofits often compete fiercely for funding, which makes it difficult to collaborate. But as the need among LMI communities has grown and funding has dried up, many community organizations are finding that the best way to increase capacity and boost their impact is to partner with others. This is where the FPP plays a starring role. The statewide coalition links a diverse group of actors—community organizations, state and local governments, and financial institutions—with a common goal to boost the financial well-being of Florida households. As Schmitz described it, “We’re a connecting-the-dots, information-brokering, statewide association.”

One of the FPP’s most successful initiatives is Bank On Florida, a campaign that aims to lower barriers to mainstream financial services for the state’s large un- and underbanked population, a group whose ranks swelled during the recession. More than 7 percent of Floridians (roughly 500,000 people) are unbanked, meaning they don’t have a checking or savings account. Another million or so have an account but continue to use alternative financial services such as payday lenders or check-cashing services. Many people don’t realize that there are other options, said Janet Hamer, a senior CED specialist at the Atlanta Fed’s Jacksonville Branch. “They’re giving away a portion of their paychecks to get their money.”

Through Bank On Florida, the FPP is trying to raise awareness about the benefits of using mainstream financial services. The program conducts outreach campaigns, helps develop safe and affordable financial products, and works to improve access to those products. Importantly, the program loops in various stakeholders—from banks and credit unions to nonprofits and local governments. Today, nearly two-thirds of the state’s 67 counties are involved with the Bank On Florida initiatives, said Schmitz.

She believes the FPP’s collaborative approach is part of a wider trend in the industry. Hamer, who until recently chaired the partnership’s board, agrees. “I think this is where the field is headed,” she said. “If we’re going to serve our low-to-moderate-income community in an efficient and successful way, we’re going to have to collaborate more.”

Faced with a complex and evolving set of challenges, community developers are coming up with innovative ways to serve LMI communities. The strategies vary, but many of them fall into a set of broad themes that include holistic approaches to community development, greater collaboration, and data-driven decision making. Indeed, whether it’s the integrated approach to community revitalization promulgated by Purpose Built Communities or the information-brokering coalitions nurtured by the Florida Prosperity Partnership, community developers have an array of creative tools and strategies at their disposal. ■

This article was written by Lela Somoza, a staff writer for EconSouth.

As the lead organization on the project, the Bayou District Foundation has hewed closely to the East Lake model. (The community even has a golf course.) Mixed-income housing replaced decaying public housing units, and soon the neighborhood will welcome retail shops and a new educational complex serving grades K–12. The project is still in the early phases, but already it is yielding impressive results. The new community is built on the former site of the St. Bernard Housing Community but is much smaller, with just 685 rental units versus 900 available units in the former development. Crime is down dramatically. From 2001 to 2004, the St. Bernard neighborhood had 684 felonies and 42 murders. Since 2010, when the first residents moved into the newly built Columbia Parc at the Bayou, there have been just two attempted felonies.

Through its network of partners, Purpose Built is proving that East Lake’s success can happen elsewhere. Not every community is a perfect fit for this approach, however. As Franklin writes in *Investing in What Works*, “the Purpose Built model is not the complete answer to neighborhood transformation. Not all distressed neighborhoods in our cities have the required conditions to apply it successfully.” For one, strong civic leadership is essential, Franklin said.

Indeed, given the crucial role Cousins played in the East Lake transformation, one can’t help but wonder what happens when there isn’t a wealthy philanthropist to drive the project. But as Franklin explained, what’s needed is “people who have credibility in the community, who are known for their integrity and their high ideals, but who are also known as people who can get things done.” Success requires civic leadership, “but it does not require wealth,” she emphasized.

Florida coalition banks on partnerships

In Florida, community developers are taking a different approach to the familiar challenge of doing more with less. In particular, they’re building partnerships. That strategy may seem obvious, but according to Kaye Schmitz, president and chief executive officer of the Florida Prosperity Partnership (FPP), it’s far from the status quo.

Sovereign Debt: Two Perspectives



Public debt and deficits in the United States and many European countries have risen significantly in recent years. Many governments have responded with austerity policies, which call for tighter fiscal policy aimed at reducing debt levels. The debate over austerity policies raises many questions. What is the relationship between high debt levels and economic growth? Are austerity policies an appropriate response to high debt levels, even during weak economic conditions? Assuming such policies are enacted, how will the economy respond? The austerity debate—among both politicians and economists—is contentious, but arguably one of the most important public policy debates of our time.

Austerity: The Challenge of Public Policy Debate

The sovereign debt crisis forced several European countries to adopt severe austerity measures to reduce their debt, raising debate about whether such policies are the appropriate response to a debt crisis.

The signature academic work on the relationship between debt and economic growth is Carmen M. Reinhart and Kenneth Rogoff's book *This Time Is Different: Eight Centuries of Financial Folly* as well as other papers. One widely cited statistic from these Harvard economists' work—that growth begins to slow when the debt-to-gross domestic product (GDP) ratio of a country rises above 90 percent—was found to contain an error earlier this year. Three economists at the University of Massachusetts–Amherst found that growth in countries above the 90 percent threshold actually averaged 2.2 percent growth, not a drop of 0.1 percent as Reinhart and Rogoff had originally published. But a mistaken calculation has not stopped a deeper debate about *causality*: Do high debt levels cause lower growth, or do debt levels increase because growth slows? And is there really a specific threshold at which debt dynamics become unfavorable?

These questions are at the center of the austerity debate, given how growth has slowed in developed countries since the Great Recession. In the United States, real GDP growth has averaged only 2.2 percent since the end of the recession in mid-

Fiscal Adjustment in Europe: Country by Country

The sovereign debt debate does not offer a one-size-fits-all solution. Countries have taken a variety of approaches to improving their fiscal health, but the costs of the progress made have been high for all.

Nearly four years have passed since the sovereign debt crisis erupted in Europe after Greece revealed the dire state of its public finances, shattering investor confidence in the country's ability to repay its debts. The severity of the fiscal situation in Greece in turn raised concerns about other European countries with weak government finances, and their borrowing costs soared. After having lost market access at affordable interest rates, Greece, Ireland, and Portugal received massive financial rescue packages from the European Union (EU) and International Monetary Fund (IMF). These lenders required the three countries that received the EU/IMF financing to implement harsh fiscal, structural, and financial reforms. Rising borrowing costs also put pressure on Italy and Spain to undertake reforms that would ensure their governments' ability to pay current and future debts. The five countries—collectively often referred to as “peripheral Europe”—entered a period of severe austerity aimed at stabilizing their public debt burdens and improving the competitiveness of their economies.

Having committed to multiyear plans to reduce budget deficits to 3 percent of gross domestic product (GDP) or lower, the peripheral European countries have by now completed roughly half of their targeted fiscal adjustments—a remarkable

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achievement, considering that their economies have shrunk over the past few years. It's worth examining the fiscal progress made thus far by the peripheral countries, and the socioeconomic costs of the austerity measures undertaken to achieve it, country by country.



Greece: The weakest link

While Greece has been perceived by many as lacking commitment to difficult reforms, in reality, the country has made an immense effort over the past three years. It has implemented fiscal tightening equivalent to about 20 percent of GDP and reduced its budget deficit to 6 percent of GDP in 2012 from a peak of more than 15 percent in 2009. That is a notable accomplishment, especially considering that Greece's economy has been in recession since 2008.

The austerity measures have been harsh. Between January 2010 and January 2013, effective tax rates increased by at least 20 percent, and pensions and government sector wages fell more than 25 percent. The minimum wage was reduced by 20 percent and by more than 30 percent for new entrants to the labor market. Social benefits were cut, and spending in key sectors such as health care was also slashed. In the meantime, the economy shrank by a fifth and the unemployment rate soared from about 10 percent to more than 26 percent.



Ireland: Public sector bears the brunt

In 2010 Ireland was the second country to receive a financial rescue package from the EU and IMF. The country has met or exceeded internationally mandated fiscal targets since late 2010, in part because the targets were not as ambitious as those imposed on other countries. Ireland's budget deficit declined from over 11 percent of GDP in 2009 to less than 8 percent last year.

The burden of fiscal austerity in Ireland has fallen largely on the public sector through cuts in public pay and services. In 2009 and again in 2010, public sector wages were cut by 15 percent, on average. Social welfare benefits were decreased at a comparable rate, to some extent because eligibility and means-tested criteria for benefit payments became more stringent. Since 2008, public sector employment has been reduced by nearly 10 percent, mostly in health and education. Notably, Ireland's 12.5 percent corporate tax rate, the lowest among the EU's major economies, has not increased, reflecting public consensus that raising the rate would lead to capital flight and collapse in foreign direct investment from foreign manufacturers. Likewise, marginal tax rates remain below the European average.

Ireland's economy was the first in the euro zone to enter a recession in the wake of the 2008 financial crisis and is second only to Greece in terms of lost output. Job losses have been se-

vere as well. The unemployment rate rose rapidly from less than 5 percent in 2007 to a peak of 15 percent in 2011. The unemployment rate would perhaps have been even higher, had it not been for a jump in emigration, especially by young people. One Irish person emigrates every six minutes, according to the *Financial Times*.

Portugal: A solid effort



Portugal managed to halve its budget deficit by 2012 from a peak of 11.5 percent of GDP in 2010. The country has also met most of the fiscal targets set by EU/IMF creditors. Portugal's austerity measures have included increases in the value-added tax (VAT) and property and income taxes, as well as a reduction in personal income tax deductions. Fees to access public services, such as hospitals, courts, and highways, have been raised, public sector hiring has been frozen, and spending on education has been cut. The economy is now approximately 7 percent smaller than its peak size, and the unemployment rate, currently at about 17 percent, is double its prerecession level.



Spain: From fiscal woes to employment crisis

Pressured by rapidly rising bond yields, Spain's government embarked on fiscal tightening in May 2010. Austerity measures from 2010 to 2012 were about equally divided between revenue increases and spending cuts. Reduction in spending mainly came from lower public investment, which fell by 60 percent from 2009 to 2012. Higher revenues were achieved by VAT, personal and corporate income tax increases, and the reintroduction of the wealth tax. Spain managed to reduce its budget deficit from a high of 11 percent of GDP in 2009 to 7 percent last year. During that period, output fell by a surprisingly small 2 percent. The unemployment rate, however, rose by more than 6 percentage points to over 26 percent, more than three times the rate in 2007.



Italy: Focus on structural reforms

Italy did not run up budget deficits in response to the 2008 financial crisis. However, its public debt is one of the largest in the world. As Italy's borrowing costs escalated in 2011, the government announced a set of reforms aimed at lowering its debt burden and improving the country's competitiveness. Most of the fiscal adjustment in Italy in 2012 came from tax hikes, even though tax revenues had already amounted to about half of the country's GDP. In hindsight, the impact of higher taxes on near-term growth appears to have been underestimated. Personal disposable incomes were squeezed, households were reluctant to draw on savings, and the recession deepened. The

unemployment rate has been on an upward trajectory in recent years, but at 12 percent it is still the lowest among the peripheral countries.

Moderating fiscal tightening

The European debt crisis has recently waned, partly because of the efforts undertaken by the European Central Bank and partly as a result of notable improvements in government finances and some progress on structural reforms. The economic environment, however, remains challenging, with only tentative signs of stabilization in some countries and virtually no employment growth. Earlier this year, the European Commission acknowledged the crippling effect of harsh austerity measures on economic growth and budget deficits and has relaxed fiscal targets for some countries, pushing for more growth-friendly fiscal adjustment. Going forward, the pace of fiscal tightening will likely moderate and most peripheral countries should return to positive growth next year. ■

This article was written by Galina Alexeenko, director of the Regional Economic Information Network at the Atlanta Fed's Nashville Branch.

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2009, well below historical norms. And the euro zone has been in recession, with real GDP declining an average of 0.2 percent for the past two years (though growth turned slightly positive in the second quarter of 2013). The research in response to Reinhart and Rogoff suggests a less clear relationship between debt levels and economic growth.

Fiscal policy decisions

What about Greece and other European countries that have suffered deep recessions because of their perceived debt levels? Economist Roberto Perotti, a professor at Università Bocconi in Milan, Italy, has examined how the fiscal policy decisions of an indebted country—whether to enact austerity, and, if so, how much—depends on its “fiscal space,” or whether it is under pressure from higher interest rates demanded by sovereign debt investors (sometimes dubbed “bond vigilantes”). Some countries are effectively forced to enact austerity policies by raising interest rates on their bonds. To reassure investors they will not default, countries increase taxes and cut spending to restore confidence. That approach has been the case with Greece, and to a lesser extent in other troubled European countries such as Spain, Italy, and Portugal. In these circumstances, authorities enacted austerity policies to avoid a fiscal crisis and ensure access to market funding.

However, these circumstances may differ from those of the United States, the United Kingdom, or Japan—countries with full control of their own currencies and aggressive central banks willing to be lenders of last resort. Perotti concludes that for indebted developed countries maintaining market confidence and assuming higher fiscal multipliers given excess “slack” and near-zero monetary policy, the optimal fiscal response should be short-term fiscal stimulus and longer-term consolidation.

Fiscal multiplier measures and effects

A separate but related issue in the debate over austerity entails the fiscal multiplier. The multiplier is the amount of output growth resulting from one unit of fiscal spending. In the United States, for example, a multiplier of 0.7 would imply 70 cents of real GDP growth from \$1 of government spending. A multiplier of 1.2 says \$1 of spending cuts implies a decline in output of \$1.20. There is intense debate about what methodology should be used to calculate the multiplier and how it varies based on macroeconomic conditions or by country. Many macroeconomists argue that in an environment where the central bank has interest rates near zero, a so-called liquidity trap, the multiplier might be larger. Monetary policy is currently near the zero lower bound in the United States, the UK, and the euro zone.

Furthermore, the multiplier might be larger when there is a lot of slack in the economy. “Slack” is a term for excess capacity, both of capital (like underutilized factories) and labor (higher unemployment). Similar to the methodological debate over multipliers, there are various alternative views on what exactly slack is and how to measure it.

Just a few years ago, the International Monetary Fund (IMF) estimated multipliers around 0.5, implying little negative impact on growth from fiscal austerity. However, in October 2012 the IMF released a report, *Coping with High Debt and Sluggish Growth*, in which IMF researchers and authors found a relationship between countries with higher fiscal austerity plans and those countries’ subsequent growth forecast errors.



In other words, countries with greater austerity had disappointing growth. In a follow-up paper this year, the IMF's Olivier Blanchard and Daniel Leigh expanded on the earlier methodology and concluded:

[T]here is no single multiplier for all times and all countries. Multipliers can be higher or lower across time and across economies. In some cases, confidence effects may partly offset direct effects. As economies recover, and economies exit the liquidity trap, multipliers are likely to return to their precrisis levels. Nevertheless, it seems safe for the time being, when thinking about fiscal consolidation, to assume higher multipliers than before the crisis.

Some economists dispute the IMF's empirical results of multiplier understatement, saying that the countries included in the study can bias the results in a significant way. For example, Germany and Greece are outliers relative to the rest of the euro zone—Germany has lower debt and higher growth and Greece, the opposite, relative to the euro zone. Removing one or the other can dramatically affect the multiplier calculation. However, even studies skeptical of multiplier understatement can agree that higher multipliers exist for economies in recession.

Given the recent tide of economic research casting doubt on the wisdom of implementing austerity in a weak or recessionary economy, the debate now turns to politics. In 2013, the United States began implementing a large amount of fiscal austerity, in the form of spending cuts (from the sequester) and payroll tax increases (part of the fiscal cliff). The Congressional Budget Office estimates that fiscal austerity will reduce real GDP growth in 2013 by around 1.5 percentage points. And this prediction does not factor in possible fiscal disturbances that could occur later in the year given the need for congressional authorization to raise the debt ceiling and avoid a government shutdown. While the U.S. deficit has been falling recently, and thus debt levels are moving lower, fierce political polarization on the issue remains. In Europe, there is intense debate both in the UK and the euro zone about the wisdom of austerity policies, with public protests against further cuts to social services. The lack of any substantive economic recovery in the euro zone is making the austerity debate all the more intense. In both the United States and Europe, this issue is not going away. ■

This article was written by Andrew Flowers, a senior economic research analyst in the Atlanta Fed's research department.

Continued from page 25

who has performed well in the class or advice that the student might want to consider another major. That advice is also based on predictive analytics, giving the adviser more concrete information on what course of study the student is likely to perform well in than a gut feeling on the adviser's part.

Renick noted that large public universities like GSU are receiving much criticism these days—about wasted dollars and about failing the very students they are designed to serve. He credits this criticism for GSU's success in part because it has "lit a fire" for the university to tackle some of these issues. "We believe that it's not acceptable to take student tuition dollars and not provide them a clear path to success."

Welcome good news

The term "big data" in the context of government can evoke images of "Big Brother," especially given the recent news about the surveillance program of the U.S. National Security Agency. However, in most instances, laws are already in place to protect individual privacy. For example, "there is a federal law, FERPA [the

Family Educational Rights Privacy Act of 1974], that restricts the university from releasing student information to anyone outside the university but the student," Renick said. Even parents are forbidden from obtaining their offspring's information—including grades. As long as these safeguards are upheld, the potential of such programs to make government more efficient and bring about changes that benefit individuals far outweighs the risks. "There are dozens and dozens of government services that could benefit from big data," Bourdeaux said. And thanks to big data already in action, Georgia residents like Darryl and Maria are better off. ■

This article was written by Nancy Condon, an associate editor for EconSouth.

Follow



Futures trading has come a long way since the practice began in mid-19th-century U.S. agricultural markets. What began as a way for farmers to lock in a price for grains from an upcoming harvest has evolved into a high-paced trading of commodities—still including crops—and financial instruments. The futures market of today now relies almost entirely on technology. And integrating technology into the provision of clearing and trading services fosters global expansion in the futures industry. This was true in 2007, when *EconSouth* ran a story on the futures industry, and it's still true today. The 2007 story—titled “The Past, Present, and Future of Futures”—describes how traders could watch futures prices change in real time around the world, trade electronically from anywhere around the world, and execute trades within milliseconds. This follow-up updates the 2007 story with more recent events.

A futures market discussed in the 2007 story—a relative newcomer at the time—has since made headlines numerous times by completing significant acquisitions and launching new initiatives. In April 2012, the Atlanta-based IntercontinentalExchange (ICE) announced an agreement to develop the technology for a new fixed-income trading platform for Brazilian corporate and government bonds. Through the deal, ICE expanded its global activities by reaching a new market in Brazil. ICE also made the news

In the third quarter of 2007, *EconSouth* looked at InterContinentalExchange, then a relatively little-known exchange but one that is now poised to purchase the New York Stock Exchange.

when it collaborated with Cetip, Brazil's leading operator of services for securities, fixed-income bonds, and over-the-counter derivatives, to establish the Cetip Trader platform, which launched in February 2013.

In December 2012, ICE announced its acquisition of NYSE Euronext, the parent company of the New York Stock Exchange (NYSE). NYSE's exchanges in Europe and in the United States trade equities, futures, options, and fixed-income products, which gave ICE the opportunity to address new markets in Europe and offer more innovative products and services. U.S. securities regulators and the European Commission approved the deal in mid-August. The merger still requires the approval of individual country regulators in Europe. ■

By Elizabeth Bruml, an economics major at Emory University in Atlanta, who contributed this article as part of her internship at the Federal Reserve Bank of Atlanta

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Closing the Unemployment Gap

7.6

Amount, in millions of tons, of U.S. orange production in 2012–13
Source: U.S. Department of Agriculture

8.1%

Share of U.S. workers with commutes of 60 minutes or longer in 2011
Source: U.S. Census Bureau



18.3

Amount, in billions of gallons, of water withdrawn daily in Florida in 2005 (66 percent of which was for thermoelectric power)
Source: U.S. Geological Survey

\$2.90

Daily cost of supervising a parolee in 2011, compared with the \$51 daily cost of housing an inmate
Source: Georgia Department of Corrections, as cited in *EconSouth's* article "Big Data: Government's Next Frontier?"

26%

Rate of Spain's unemployment in 2012, triple the 2007 rate
Source: International Monetary Fund, as cited in *EconSouth's* article "Sovereign Debt: Two Perspectives"

70%

Share of adults currently employed in Atlanta's East Lake community, up from 13 percent in the 1990s
Source: Investing in What Works for America's Communities, as cited in *EconSouth's* article "Innovative Strategies in Community Development"

15.8

Increase, in millions, in housing units in the United States between 2000 and 2010
Source: U.S. Census Bureau



1.23

Number, in millions, of people in the New Orleans metro area in mid-2012, representing 94 percent of the pre-Katrina population
Source: U.S. Census Bureau, as cited in *EconSouth's* article "The Big Busy"

~~UNEMPLOYED~~





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Canal Street forms one of the boundaries of New Orleans' famed French Quarter and has long been one of the city's main arteries for culture and commerce. Many of the buildings lining the street in 1910 (above, with the Mississippi River in the background) still stand today (at right).



now **and** then