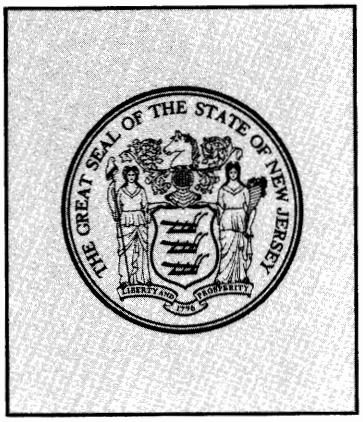


11th Annual Report

Economic Policy Council and Office of Economic Policy

Department of the Treasury
State of New Jersey
July, 1978

11th Annual Report

Economic Policy Council and Office of Economic Policy

Department of the Treasury
State of New Jersey
July, 1978

STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
TRENTON
08625

BRENDAN T. BYRNE
GOVERNOR

July 17, 1978.

TO THE LEGISLATURE

I am pleased to transmit the 11th Annual Report of the Economic Policy Council and the Office of Economic Policy.

During this past year the State of New Jersey has experienced widespread economic growth. More New Jerseyans are employed than ever before and their earnings are among the highest in the Nation. Despite a significant reduction, the rate of unemployment is still too high, especially among youths in our cities. My administration will continue to place the highest priority on economic development that creates new jobs.

The economic health of our urban areas remains a significant challenge to all New Jerseyans. Declining urban centers are not only a financial drain on city dwellers, but affect the well being of all citizens, those living in suburbs and rural areas alike. Early this year I committed this administration to design comprehensive plans dealing with our deteriorating cities. Since then a cabinet level task force has been formed and specialists in State and local government as well as private citizens and groups are contributing ideas and programs. This *Annual Report* by the Economic Policy Council is dedicated to the single purpose of urban revitalization. The findings and recommendations in this document present a comprehensive approach to city problems and should make a significant contribution to current legislative deliberations and policy decisions.

I am confident that the efforts of the Economic Policy Council and other groups will help reverse the economic decline of our urban areas. Only when the cities are once again economically strong and financially independent can we be assured of a continuing healthy development of the entire State.

Respectfully,

Brendan Byrne

Governor.

ECONOMIC POLICY COUNCIL

DR. JOSEPH J. SENECA, *Chairman*
Professor of Economics, Rutgers University

DR. WILLIAM C. FREUND, *Member*
Senior Vice President and Chief Economist, New York Stock Exchange

DR. DWIGHT M. JAFFEE, *Member*
Professor of Economics, Princeton University

OFFICE OF ECONOMIC POLICY

DR. ADAM BRONER, *Director*

DR. JOHN E. STAPLEFORD, *Economist*

GEORGE R. NAGLE, M.S., *Economist*

WENDY D. LEE, B.A., *Economist*

CAROL MASLOWSKI, *Secretary*

State of New Jersey
ECONOMIC POLICY COUNCIL
142 WEST STATE STREET
TRENTON, NEW JERSEY 08625

DR. JOSEPH J. SENECA
CHAIRMAN

DR. WILLIAM C. FREUND
DR. DWIGHT M. JAFFEE
MEMBERS

July 14, 1978

THE HONORABLE BRENDAN T. BYRNE
Governor
State House
Trenton, N. J. 08625

DEAR GOVERNOR BYRNE:

The Economic Policy Council is pleased to transmit its *Eleventh Annual Report* in accordance with Chapter 129 of New Jersey Public Law 1966.

Following your decision to make the economic revitalization of New Jersey's cities an important priority for State policy, we have devoted this year's entire *Report* to understanding and solving the State's urban economic problems.

Although we are well aware that no one group can fully develop a complete urban plan for New Jersey, we report to you here our findings and conclusions on the urban issue. We offer these policy ideas to help focus the discussions and thoughts that will be needed before any final State Urban Program can be legislated.

We believe that an effective urban program would include new initiatives in the areas of housing and land use, urban education, urban safety, tax abatement, small business incentives, utility pricing policy, State capital spending and urban unemployment. We outline the details of several proposals in each of these areas in Chapter I.

The studies in the main body of the *Report* provide some of the background material for the recommendations of the first chapter. In Chapter IV, we document the negative effects on urban centers, intentional or not, of previous federal and state programs and make several suggestions to reverse

these policies. Chapter V analyzes the revenue and expenditure patterns of the State's six largest cities and discusses the problems and potentials of urban finance. Chapter VI examines the fiscal impact of the Public School Education Act and concludes that in its first two years of operation the distribution of State educational aid has not been dramatically changed. Chapter VII addresses the question of who are the unemployed in New Jersey and Chapter VIII develops the link between crime rates and unemployment in twenty-five New Jersey cities.

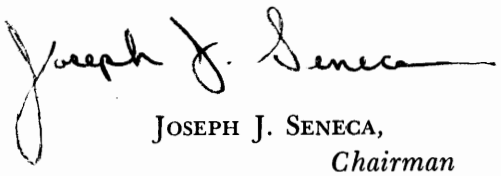
Chapters IX through XII evaluate various aspects of existing and proposed federal programs which effect urban centers.

Our annual review of the New Jersey economy and economic outlook is given in Chapter II and the past year's economic legislation is evaluated in Chapter III.

Our work this year was greatly assisted by the support we received from several individuals and departments. We wish to express our appreciation to Dr. Arthur O'Neal and Ms. Vivien Shapiro of the Department of Labor and Industry. Peg Pestrak and Val Babecki from the Legislative Bill Room carefully collected the legislation for our annual review. The staff of the New Jersey State Library continued to be a great help in locating and supplying reference material. We also wish to thank Edward G. Hofgesang and John T. Flynn of the Treasury Department for their helpful support of the needs of our small office. In addition, we would like to acknowledge Dr. James Knickman, Dr. Andrew Reschovsky, Leanne R. Aronson, William E. Parshall for their contributions to this year's *Report*. The participants at our seminars, listed in Chapter I, shared with us their invaluable urban expertise. We particularly wish to thank Jack Krauskopf, Dr. Peter Bearse and Nancy Beer for their help in organizing the seminars. Carol Maslowski, Lynne Tammaro and Sue Franks deserve special thanks for the care and skill they exercised in preparing this *Report*.

The Council and its staff greatly appreciate your interest in our work and we look forward to continuing to assist you in improving the economy of New Jersey.

Respectfully submitted,



JOSEPH J. SENECA,
Chairman

CONTENTS

Page

Reviews

I. Activities of the Economic Policy Council and Elements of an Urban Recovery Strategy 1

II. A Review of the Economy and an Outlook for Fiscal Year 1978-79 11

III. Review of Legislation with Significance for the New Jersey Economy 22

Urban Studies

IV. Urban Revitalization Policy—A General Framework 30

V. Urban Revitalization and Fiscal Problems 48

VI. School Finance Reform in New Jersey: The First Two Years.. 60

VII. A Profile of New Jersey Unemployment 72

VIII. The Economic Basis of Urban Crime in New Jersey 87

Federal Urban Policy

IX. Comments on the President's Urban Program 93

X. Mobilizing Capital: The National Development Bank 101

XI. Strategies to Curb Redlining 117

XII. 1977 Federal Pollution Control Amendments 129

XIII. Statistical Appendix 133

Appendix: STATISTICAL TABLES

Table		*Page*
1.	Population and Employment, New Jersey, 1956-1977	133
2.	Wage and Salary Workers in Nonagricultural Establishments, Major Industry Divisions, New Jersey, 1947-1977	134
3.	Wage and Salary Workers in Manufacturing, Durable Goods, New Jersey, 1947-1977	135
4.	Wage and Salary Workers in Manufacturing, Nondurable Goods, New Jersey, 1947-1977	136
5.	Employment, Hours, and Earnings of Production Workers on Manufacturing Payrolls, New Jersey, 1947-1977	137
6.	Consumer Prices Indexes for Urban Wage Earners and Clerical Workers	138
7.	Personal Income, New Jersey and United States, 1948-1977	139
8.	Production and Trade, New Jersey, 1948-1977	140
9.	Business Activity, New Jersey, 1948-1977	141
10.	Agriculture, New Jersey, 1950-1977	142
11.	County Population Estimates Resident Population	143

CHAPTER I

ACTIVITIES OF THE ECONOMIC POLICY COUNCIL AND ELEMENTS OF AN URBAN RECOVERY STRATEGY*

The Economic Policy Council is pleased that in the last year the health and performance of New Jersey's economy has been publicly recognized as the single most important issue facing the State. It was the centerpiece issue of the 1977 election and in turn this attention led to the March 1978 statewide Jobs Conference and the formation of various public efforts to assist urban economic development.

I. Review of Activities

Over the past year New Jersey has made considerable economic progress. Total non-farm employment is up over 3.5% from last year and currently exceeds 2.93 million. Job gains have been registered in every sector of the economy including manufacturing and construction, two areas of long-standing problems. The unemployment rate has shown a steady decline from a high of 10.2% in January 1977 to 7.4% in May 1978.** Personal income in the State continues to show gains that closely match the growth in income in the national economy. The State's tax structure has been made permanent and more equitable and the uncertainty of possible 12th hour increases in business taxes that marked recent year's closing sessions of the Legislature, is reduced. Chapter II provides a more detailed review of the State's economic performance and forecasts continuing modest gains in the next year.

In light of this record of a general and steady improvement in New Jersey's economy, we believe it is now appropriate to turn away from policies directed at broad areas of economic development (e.g., tax reform) and instead pursue measures which are specifically aimed at the remaining problem areas of the economy.

It is our opinion that the current, number one issue which the State must address is the economic decline of its urban areas and the resulting high level of unemployment concentrated in the State's cities and among the State's youth. While the 7.4% unemployment rate cited above is still unacceptably high, it does not imply that there is an even distribution of this unemployment across all geographic areas of New Jersey and within all age or occupational groups of the State's labor force. As Chapter VII demonstrates, New Jersey's unemployment is

---

* Prepared by Dr. Joseph J. Seneca, Chairman, Economic Policy Council.

** These figures refer to the Department of Labor & Industry's method of measuring unemployment. However, the new Bureau of Labor Statistics procedure also show a comparable, but more erratic, downward trend.

very unevenly distributed and is concentrated in urban areas, among youth and among blue collar occupational groups. Accordingly, broad-based policies of economic stimulus, whether instituted at the federal or state level are likely to have only a minimal impact on these specific problem areas of unemployment. With this in mind, the Economic Policy Council has made several recent proposals to both build upon the particular economic strengths of the State and to attack specific areas of economic weakness:

—In our meetings with the Governor in July and December 1977 we proposed a series of measures to increase employment in New Jersey. We recommended policies in the areas of new mortgage contracts, foreign investment, land grants, urban tax credits, and assistance to specific industries. In addition, we sought the removal of the moratorium on new natural gas hookups. We also stressed the opportunities for the job creation potential of energy conservation.

—The Office of Economic Policy has emphasized the problems of the hard-to-employ at the Governor's Conference on Economic Priorities for Job Creation and provided the background materials for a session on this issue.

—The establishment of the Office of Technical Innovation, an idea of the Council, occurred with the passage of legislation in early 1978. The objective of this Office is to take advantage of New Jersey's comparative strength in technical innovations and to translate these innovations into private sector job creation.

—We have prepared and sent to the Executive proposals to provide assistance to small businesses. We believe that the protection and growth of small business is a central element in any urban revitalization strategy.

—We have repeatedly stressed that any need for additional State revenues does not necessarily have to be met unfailingly by increases in tax rates or new forms of taxation. Rather, the same end can be achieved by aggressive policies which expand the economic base of the State.

Beyond these proposals, however, lies the common denominator of the State's single most chronic and far-reaching economic problem—the distress of New Jersey's urban centers. To this end, we have devoted this year's entire *Annual Report* to studies aimed at understanding the nature of New Jersey's urban problems and formulating policy recommendations which will foster an increased involvement of the private sector in the economy of urban areas.

We have held two very successful seminars where invited public and private sector urban experts shared with us their views on how to approach the State's urban problems and what priorities should be followed. Many of the ideas contained in this *Report* were developed and critically discussed at these seminars. We greatly appreciate the participation of these individuals and the time and knowledge they shared with us.*

II. Review of Economic Studies

The Governor has made the restoration of the economic and social well-being of the State's cities an important priority of his second administration. The Legislature is also committed to the same objective. However, executive will and legislative intent must be translated into law and public policy. We believe that the studies and conclusions of this year's *Report* can improve the understanding of the multiple dimensions of the State's urban problems and

* The participants were: Dr. Peter J. Bearse, Woodrow Wilson School; Ms. Nancy Beer, Woodrow Wilson School; Dr. Lester V. Chandler, Princeton University; Mr. Gustav Heningburg, Greater Newark Urban Coalition; Dr. James Knickman, New York University; Mr. Jack Krauskopf, Woodrow Wilson School; Mr. John Laezza, N.J. Department of Community Affairs; Dr. William R. Latham III, University of Delaware; Mr. Frederick G. Meissner, Jr., New Jersey Bell Telephone; Dr. Wallace Oates, Princeton University; Dr. Henry Raimondo, Rutgers University; Dr. Chester Rapkin, Princeton University; Mr. Richard Roper, Office of Newark Studies; Dr. Kenneth T. Rosen, Woodrow Wilson School; Dr. Francis Tannian, University of Delaware; Mr. Jerald Webman, Woodrow Wilson School; Mr. Julian Wolper, Woodrow Wilson School, and Mr. Randall Zisler, Princeton University.

lead to more effective public policies. We briefly review these urban study chapters below.

Chapter IV "Urban Revitalization Policy —A General Framework"

This chapter provides an analysis of the economic basis of urban places with stress placed on the economic incentives facing households, firms and institutions. There is a careful review of the economic effects that public policies have had on urban centers. The Chapter demonstrates that these policies have frequently caused the decentralization of population and business and have significantly damaged urban areas. A series of policy changes are suggested which would, over the long run, reverse some of the artificial economic disadvantages which have been imposed, intentionally or not, on urban centers by decades of previous federal and state actions.

Chapter V "Urban Revitalization and Fiscal Problems"

This Chapter analyzes the revenue and expenditure patterns of New Jersey's six largest cities. Although difficult data problems were encountered, the Chapter dissects the budgets of these cities and carefully examines revenue sources, program costs, and the problems of urban finance. It concludes that little reliance can be placed on urban revenues as a source of funds to revitalize the cities. The growing dependence of urban government on outside aid moneys is also documented. The Chapter argues that a State or federal takeover of those city expenditure programs which provide significant benefits to non-city residents represents a major opportunity to reduce the costs of urban government in an equitable manner.

Chapter VI "School Finance Reform in New Jersey: The First Two Years"

This Chapter examines the fiscal impact of the Public School Education Act. This law, passed in response to the *Robinson* vs. *Cahill* decision of the New Jersey Supreme Court, attempts to fulfill the Court's mandate for a "thorough and efficient system of free public schools." A high quality attractive urban public education system is an essential prerequisite for the restoration of the economic health of New Jersey's cities. The Chapter concludes that in its first two years of operation the law has caused total aid to all school districts to increase with the absolute size of the increase in low-income districts slightly greater than the average increase statewide. However, in percentage terms, financial aid to the moderately wealthy suburban and rural school districts grew larger, on the average, than did aid to the State's poorest cities. The Chapter discouragingly concludes that despite the new legislation, the pattern of State educational aid has not been significantly changed and the new redistribution formula has not been able to overcome the fiscal effects of the continued economic decline of New Jersey's largest and poorest cities.

However, the authors point out that these conclusions are not definitive and the school reform legislation may in the long run prove a more effective means of increasing financial aid to poor urban districts. The uncertainty of the income tax program on which the aid was based and the immediate political pressures for property tax relief may have influenced the use of aid moneys in the first two years of the law's operation. With the permanence of the supporting State tax structure now established, a different expenditure pattern may emerge in the future.

Finally, although this study is confined to an examination of the redistribution of state aid to education since 1975, it should be noted that significant changes in the allocation of aid occurred between the time of the *Robinson* vs. *Cahill* decision (1973) and the passage of the Public School Education Act (1975).

Chapter VII "Profile of New Jersey Unemployment"

New Jersey has recently been cited as having an unemployment rate greater than its neighboring states. While true, this statement masks the

substantial variation in unemployment rates in New Jersey between urban and non-urban areas, within various age groups and among different occupations. This Chapter looks at the composition of unemployment in New Jersey and makes comparisons with other nearby states and the nation as a whole. Its conclusion is that greater stress is needed on job policies aimed at the hard-to-employ—non-white, female, youths, blue collar and urban workers—rather than general policies of broad-based economic stimulation.

Chapter VIII "The Economic Basis of Urban Crime in New Jersey"

This Chapter studies the link between crime rates and economic conditions in 25 New Jersey cities. A direct relationship is found to exist between unemployment and youth labor force participation on the one hand, and non-violent (property) crime on the other. Accordingly, significant reductions in crime rates could be expected if economic conditions in the cities are improved.

Chapters IX through XII Federal Urban Issues

The final section of the *Report*, containing four chapters, examines various aspects of federal programs that affect urban centers. Chapter IX evaluates President Carter's proposed urban program and its implications for New Jersey. Chapters X and XI examine several existing and proposed public programs aimed at meeting the capital needs of urban centers. Finally, Chapter XII reviews the alarming implications for urban areas of the 1977 amendments to federal air and water pollution control laws.

III. Elements of A State Urban Policy

From the studies briefly summarized above we can begin to draw together the various elements that might constitute the framework of an urban policy for New Jersey. Clearly, given the present background of public concern over taxes, the many demands on limited State revenues and the magnitude of the State's urban problems, the most significant financial assistance must come, if it is to come at all, from the federal government. However, this is not, by any means, to imply that the State should not be active in its own right in managing well the various federal urban aid moneys and programs and also in implementing its own policies which will complement and not duplicate, negate or compete with the federal efforts at urban revival.

One basic principle of a State urban policy should be to take full advantage of the leverage contained in federal programs to increase the involvement of the private sector in the urban economy. Without a solid private sector base in an environment which encourages growth, investment and expansion, public programs aimed at urban restoration, no matter how massive, cannot hope to succeed on any permanent basis. Private-public partnerships are necessary in order to break the self-fulfilling expectations that New Jersey's cities are on the decline. Highly visible commitments by the private sector to remain in and support New Jersey's cities, made in conjunction with public sector pledges and aggressive policies to protect and foster the business climate of urban centers, are needed to remove the economic uncertainty and risk which currently discourage business investment and expansion.

Elsewhere in this *Report* (Chapter IX) we have evaluated the proposed federal urban program as it would affect New Jersey. In this section we concentrate on outlining those elements of an effective urban strategy which New Jersey could pursue. We offer these ideas not as a definitive, exhaustive program, but with the purpose of soliciting reactions and stimulating thought.

1. Housing and Land Use

New Jersey's cities now have a disproportionate share of the State's low-income population. These individuals make major demands on

public services and hence add greatly to the fiscal pressures on urban governments. Further increases in the concentration of low-income groups in the cities will exacerbate this trend. This will also contribute to the continued exodus of the middle income families so vitally needed as the economic nucleus of the cities. Two solutions to this fundamental problem are possible. The first is to prevent the cities from further becoming places where low income people reside to the exclusion of middle and upper income groups. This solution involves the dispersal of low-income housing outside of central cities, a path the State Supreme Court and the Governor have recently attempted to take.

In the Mount Laurel decision the Court said that zoning policies of the suburbs effectively exclude low-income families; the Court ordered that local communities must provide sufficient low-income housing opportunities in their land development planning process. Governor Byrne in Executive Order 35 required the Department of Community Affairs to draw up State housing goals to be used as guidelines for municipalities in their land-use planning in order to insure that an "appropriate variety and choice" of housing exists in all localities. We support these and other State efforts to avoid the further concentration of low-income housing in the central cities.

However, while the logic of this dispersal policy is compelling, the political realities which oppose its effective implementation are so overwhelming that any progress will (optimistically) be very slow. Accordingly, the second solution is for the State to enlarge its share of the tax burden of the cities and thereby provide relief to urban governments for the disproportionate costs they bear as a result of the concentration of low-income groups in cities. We strongly support increased State assumption of the local costs of welfare, public housing, and other low-income related public services. The underlying premise of this proposal is that the concentration of low-income individuals in urban areas and the ensuing unequal cost burden between city and suburbs is a State problem and must be solved on a statewide basis. We should note that 29 states do not require local governments to pay any contribution to the two largest welfare programs—Aid to Families with Dependent Children and Medicaid.*

Any programs designed to share more equally these costs of urban government are likely to meet heavy political opposition. In the absence however of an effective and early implementation of the Mount Laurel decision, this solution appears to offer significant fiscal relief to the cities which in turn can lead to lower property taxes and thereby provide a significant stimulus to business activity and favorably influence residential location decisions.

Reductions in local property taxes are an important element in retaining businesses and the middle income class in the State's cities. However, it is very unrealistic to expect that reducing property taxes alone will restore urban economic vitality. Complementary improvements in the areas of education, safety, employment and business incentives must, at the least, also be present if the economic decline of the State's cities is to be halted.

2. Urban Education

The existence of a high quality public education system in urban centers will be the magnet that retains and attracts the businesses and the middle income families that are essential for urban revitalization. Not only does this mean that improvements are necessary in the difficult dimensions of the quality, discipline and safety of urban public education, but significant improvement is needed in terms of the physical plant as well. New capital construction and substantial renovation of the school systems of many of the State's major cities are badly needed.

* See R.D. Reischauer, "The Federal Government's Role in Relieving Cities of the Fiscal Burdens of Concentrations of Low-Income Persons," *National Tax Journal*, September 1976.

Despite declining statewide enrollment forecasts which would legitimately caution against any general new school construction program, the capital needs of the cities' schools are critical. Accordingly, we endorse the proposed State bond issue to finance the physical renewal of urban school systems. We believe this is an essential ingredient in restoring the attractiveness of public education in urban areas and hence in providing the pre-condition for the economic revival of New Jersey's cities.

3. Urban Safety

Numerous national studies have cited safety, either in the real sense that there are higher crime rates in cities or in the perceived sense of the belief, if not the fact, that higher crime rates exist in urban areas, as an important deterrent to both residential and business decisions to remain or locate in urban centers. Chapter VIII demonstrates the link between unemployment and property crime in New Jersey's cities and stresses the economic foundations of crime. Accordingly, improved safety is a necessary condition for urban economic revival. We strongly endorse the efforts of the Governor and Legislature to standardize, strengthen, and remodel New Jersey's penal code. We also applaud the implementation of the Safe and Clean Streets program which increases the visibility of urban safety programs. We believe further efforts in the direction of penal reform and State aid for urban safety are warranted.

4. Urban Tax Abatement

A considerable number of states and localities throughout the country have instituted tax abatement programs for businesses which locate in urban areas. In New Jersey, the Fox-Lance Law provides property tax abatement for five years to any new business which moves into blighted areas. The costs of the abated property taxes are basically borne by existing local businesses and residents. The laudable intent of this legislation is to lower the costs of doing business and hence to attract new buinesses and jobs to the cities. However, any new business which locates in urban areas will use the public services of these cities—police and fire protection, sanitation, water, transportation, *etc.* Fox-Lance property tax relief for these new firms implies a partial subsidy by the existing businesses and residents of the city. Hence, an additional pressure is created to raise the already very high urban property tax rates as increases in public costs overtime must be met by those businesses (and residents) which do not qualify for Fox-Lance tax relief. The high level of urban property taxes is a significant cause of the continuing exodus of businesses and middle income families from New Jersey's cities. Accordingly, we propose several other means of achieving the same desirable objective—namely, to attract new businesses and jobs to New Jersey's cities—but which at the same time will not result in pressures to increase urban property tax rates.

One suggestion is a form of commercial homesteading that we first proposed in last year's *Annual Report* (Chapter XIV). We suggested then that the State should organize a land grant program whereby property now being held by local governments because of tax default would be offered free to commercial and business users. Such a program could reduce significantly a large cost of any new business venture (i.e., land acquisition) and unlike Fox-Lance, do so at little or no expense to local government. (In fact, local government holdings of tax defaulted land often *add* to public costs.) While such a program could not be expected to generate large economic gains—there are probably not many appropriate sites attractive enough for business location—it could be instituted inexpensively and any benefits would be almost entirely windfall gains to the State's cities.

A second measure, as an adjustment to the Fox-Lance approach, is to have the State or county government rather than the local government absorb the full costs of urban property tax abatement. This would spread the costs of tax abatement more evenly throughout the region or the State. It would be necessary to limit the

application of this program to a few critical urban areas.

We also applaud the State's in lieu tax payment program (P.L. 1977, Ch. 272). Under this program, State payments are made to local governments for the property and buildings owned and/or used by State government. We believe this program should be expanded in terms of its dollar amount and extended to cover federal property, public authority property and that portion of any public institution that provides a commercial activity (and hence competes with equivalent private sector efforts) but does not pay property taxes because of its tax-exempt status.

Finally, we support enabling State legislation which will permit cities to shift from a reliance on property taxes as their major source of revenue. Such legislation would allow urban governments to generate revenues from other tax sources to replace property taxes and thus spread the urban tax burden more evenly and widely. This would be particularly equitable for those New Jersey cities that have large daytime community populations. These populations place significant demands for urban public services but at the same time do not make commensurate contributions to the costs of providing these services.

5. Urban Small Business

In our opinion, a large part of the economic revitalization of New Jersey's cities will center on creating a favorable environment for the growth and development of small business. Programs targeted specifically at providing incentives and assistance to small businesses offer a much greater chance of success and do so at a lower cost compared to broad-based incentive programs applicable to all business. For example, a property tax relief program will offer only a very modest locational incentive to a large corporation since its property tax payments represent only a small fraction of its total costs of doing business. Reduction in this one component of business costs (and limited reductions at that, i.e., for 5 or 10 years only) will not be a decisive factor in such a business' location decision. However, for a small business, the reduction would be a much more significant factor since property taxes are likely to represent a much larger component of total costs. Accordingly, what we propose is a series of financial and management assistance policies specifically applicable to small businesses (only) in a limited number of the most critical urban areas in the State. These could include additional property tax abatement (as a substitute for Fox-Lance) with the cost fully borne by the State, the provision of a loss carryover option for small businesses (only) in the State's corporate income tax code, a wage subsidy program, and the establishment of a network of management assistance centers for small business. This list is not meant to be all-inclusive, but the basic idea is important, i.e., to restrict new assistance programs, in whatever form they take, to small business. It would be desirable to offer well-designed incentives to businesses of all sizes, but in the absence of unlimited State revenues, financial assistance to small business represents an efficient and more effective policy to encourage the growth of the private sector in New Jersey.

6. Urban Pricing Issues

Chapter IV noted that utility prices are not spatially differentiated by the location of the user, even though significant cost differentials may exist in providing the identical service to city versus suburban users. Subsequently, the costs of providing utility services to areas with high population densities are often considerably lower than the costs to suburb and rural users. The result of uniform prices to all customers implies that city users (both businesses and households) are subsidizing suburban and rural utility consumers. City utility prices are overstated and suburban rates are understated, thereby creating an artificial incentive for the further decentralization of businesses and individuals.

By a similar argument, local road maintenance and other transportation costs in urban

areas are paid primarily by city taxpayers although heavy road use is often made by suburban commuters. A strong case exists for a transportation pricing policy which permits urban governments to recover some of the substantial highway maintenance costs imposed upon them by suburban commuter and transient business traffic. We urge the Governor to form a Metropolitan Pricing Commission with representatives from the utilities, Board of Public Utilities, other relevant state agencies, consumer groups and local governments to investigate the dimensions, significance and implications of this issue and to suggest policies that would remove any artificial inequities in utility and transportation prices that may exist between cities and suburbs.

Another pricing problem discussed in Chapter IV is the deductions permitted against federal income tax liabilities of the property taxes paid by homeowners. Renters, who also in fact, pay property taxes via rental payments, do not have this deduction available to them. Since renters tend to be more concentrated in urban areas, this deduction provision is an incentive in favor of home ownership and thus against the retention of middle and upper income families in urban centers.

For some time this property tax deduction has been attacked by federal tax reformers. However, it is so strongly entrenched that attempts to remove it are likely to fail for the foreseeable future. Nevertheless, this federal tax issue need not be left to Washington. It is possible that states may be able to take actions which neutralize the economic disadvantages that this deduction imposes on renters and hence, indirectly on cities. A proposed New York law would require landlords to provide each tenant with a bill for the amount of that tenant's rent which is used to pay property taxes; the tenant would thereby be given a property tax bill which could then be used as a deduction against federal tax liabilities. While the legality of this approach will certainly be tested, New Jersey should be prepared to enact similar legislation if the law withstands court challenge.

We support the recent State regulations against mortgage redlining practices. However, we also believe the State should pursue a similar anti-redlining policy for business and home insurance coverage.

A final pricing issue concerns the recent federal amendments to the Clean Air Act discussed in Chapter XII. We note there that many of New Jersey's cities are faced with constraints on industrial growth because air pollution (and in particular, ozone levels) exceed federal standards. A major cause of photochemical oxidants is automobile use. Thus, the air quality problems of New Jersey's cities are to some extent caused by heavy auto traffic for which commuters and other non-city residents are primarily responsible. The federally imposed restrictions on economic development and the subsequent losses in jobs and income in the cities are therefore a statewide responsibility. Possible solutions to this problem might involve a wider cost-sharing arrangement for any pollution control measures that are necessary in order to meet the federal requirements. We would make recommendations on this issue another part of the agenda of the Metropolitan Pricing Commission suggested above.

7. State Capital Expenditures

We repeat here the need for a State bond issue to finance capital construction and renewal of urban school systems. In general, the location of state and county buildings and activities should be increasingly directed to the State's urban centers. Also, further adjustments in the transportation budget should be made in favor of mass transit and urban road repair and away from expenditures on new road construction. Green Acres resources should be aggressively steered towards urban projects wherever possible in order to provide a greater balance in their distribution.

Finally, a more forceful State policy on land use, and highway and sewage permits is needed to prevent the continued leap-frog development and decay pattern of shopping mall construction

in suburban and rural locations. The decline of shopping areas in central cities is both a symptom and a cause of general urban economic distress. The recent success in Philadelphia, Boston and White Plains of developing new attractive shopping centers in urban areas through purposeful zoning and land use regulations is a model which New Jersey could well emulate.

The reestablishment of a viable central shopping district in urban areas will in turn stimulate additional private sector investment and job creation. However, this cannot be expected to occur when land use policy allows ever grander suburban shopping malls to replace the malls of a few years ago, leaving both concrete deserts elsewhere in the suburbs and declining retail business opportunities in New Jersey's cities.

8. Urban Employment

Finally, there is the theme of jobs and employment which, explicitly or implicitly, underlies all of our suggestions for an urban policy for New Jersey. The problem of urban unemployment has two difficult dimensions. The first is to stop the loss of jobs in the State's cities and provide a favorable economic environment which will lead to new urban employment. Solving this problem has been the purpose of many of the policy recommendations made above. However, the second basic problem is to insure that a good share of any new job creation in the cities will go to the urban unemployed rather than suburban commuters. As Chapter VII demonstrated, the core of the State's unemployment is found in the structural unemployment problems of the urban workforce. There is a clear need for special State policies and programs (beyond the existing Federal Comprehensive Employment and Training Act) to insure that the urban hard-to-employ are trained in appropriate private sector skills, able to get to any available jobs, and are ultimately placed in private sector employment. In addition, it is also important for the State to assist the existing pool of qualified urban workers to obtain positions commensurate with their skills, i.e., above the lowest paying jobs.

The proposed employment components of President Carter's urban program involve labor intensive public works, an employment tax credit for poor youth and additional CETA provisions to encourage private sector employment. If legislated, these federal programs will offer considerable help to the State's urban areas. Even if they become law, however, New Jersey cannot place complete reliance on them to eliminate its urban unemployment problem. There is still need for innovative State programs which are aimed at involving the urban hard-to-employ in private sector employment.

IV. Conclusion

Any major effort by the State towards an effective urban policy in the directions outlined above, or along other lines, will cost money. Moreover, a State urban policy would have to be legislated against the current background of frustration with and resentment against the cost of government. The decisive election victory of Proposition 13 in California, the pervasiveness of similar feelings throughout the country and the long-term history of tax resistance in New Jersey, imply that major new programs are likely to be politically difficult if not infeasible.

However, it should be noted that the general goal of tax relief can be met in a variety of ways and is not confined only to tax reduction. The obverse approach to the same end is to lower government spending and increase the tax base. If the State can solve, even partially, the problems of its urban areas, large savings in several major components of public sector costs —welfare, unemployment relief, public housing —can be achieved. In order to lower these large and recurring costs, additional programs are required now. Thus, an effective urban policy should be regarded as an investment, whose current costs will bring future returns in the form of greatly reduced public spending as the State's

urban areas become economically viable and self-sufficient.

The solution then to the public's perception of excessively high tax rates is to increase the tax base of the distressed areas. Such an approach would restore New Jersey's urban economies to full employment conditions within a healthy and attractive business environment. This would relieve the State Treasury from a seemingly endless outlay of moneys which merely cope with the symptoms of urban distress and do not solve the basic disease, thereby condemning the public sector to a treadmill of relief-type expenses and the resulting pressures for ever higher taxes to pay for them.

We also suggest in light of the limited resources available to the State, that these resources should not be spread thinly over many communities. We have already argued above that any new financial incentive programs should be limited to small businesses only (the criterion for "small" could be based on the number of employees or the size of annual sales). In this way, the cost of the program will be lower and at the same time the program is likely to be more effective. By a similar argument, we propose that some important aspects of any State urban program be limited to only a few communities. Using the current designation of the 28 urban aid areas would cause any new assistance to be spread very thinly. A more rigorous definition of urban need is necessary which would reduce the 28 existing areas considerably.

The objective is to concentrate State resources on a few areas in order to achieve a threshold effect in stimulating economic recovery. If these urban centers are put on the road to economic revitalization, resources can then be switched in the future to other areas. The goal is to achieve success somewhere and do it soon rather than do too little, for a longer time, everywhere.

Finally, we conclude by noting that many of our suggestions are not likely to be politically popular. The strong local rule tradition in New Jersey, the implications of cost-sharing on a wider state basis, and the inescapable additional expense of any meaningful urban program, all imply that substantial if not overwhelming opposition is likely.

There are two basic requirements necessary to overcome this opposition and legislate a successful State urban program. The first is a difficult one in terms of economic education, namely that a majority of citizens in the State must realize that a continuation of the economic malaise of New Jersey's cities will cost *everyone* money with little hope for any future relief. While this is a difficult lesson, New Jersey citizens have recently shown themselves capable of understanding fiscal realities. The second ingredient necessary is forceful leadership by the Executive and Legislature to enact an urban program which is more than giving a little aid to everyone. Whether it is our ideas of specifically targeting programs, concentrating on a few urban areas and spreading costs more broadly throughout the State, or it is other types of policies, a successful urban legislative program will require sustained leadership. New Jersey has recently made significant and noteworthy achievements in the areas of tax reform, land use, and penal code improvements; more remains to be done.

II

A REVIEW OF THE ECONOMY AND AN OUTLOOK FOR FISCAL YEAR 1978-1979*

A review of current economic conditions and their anticipated trends for the near term future has been a traditional part of the EPC's *Annual Report*. Section I reviews the strengths and weaknesses of the National economy. It is followed in Section II by a summary of the New Jersey economy. Section II also compares the economies of New Jersey and several other states in the Northeast region with the United States. In the past such comparisons have been useful formance. Section III presents an economic forecast for the upcoming year.

I. THE NATIONAL ECONOMY

A strong national economy has always been an essential prerequisite to a healthy State economy. The optimism reflected in the State's economic statistics can be traced back to strong performances in their National counterparts. For the past twelve months for which statistics are available, the Gross National Product grew by 10.2% (1977 (I) to 1978 (I)). Increases in prices accounted for approximately 6.4% of the rise in the value of final goods and services; thus, the *real* or inflation adjusted increase in GNP was 3.8%, a growth rate which is very close to the long-run annual increase in the Nation's output. Employment growth was the strongest within the Nation's goods-producing industries, (4.6%), while employment in the service sector lagged slightly behind at 4.2%.

Normally a 4% growth rate is just sufficient to absorb new employees entering the labor force. But, during the past year total non-agricultural employment increased by 4.3%, or by 3.5 million persons, while the Nation's labor force grew by only 3.1%.** The net result was a decline in the unemployment rate from 7.1% in May 1977 to 6.1% in May 1978. Among selected groups, the unemployment rate for heads-of-households fell from 4.5% to 3.7%, while the rate among blacks decreased only slightly from 12.9% to 12.3%; the teenage unemployment rate dropped from 18.1% to 16.5%.

For some months now economic indicators have been signaling the possibility of tight labor market conditions in the next fiscal year (1978-79). Full employment was once defined as 4%

* Prepared by Dr. William C. Freund, Economic Policy Council with staff assistance from the Office of Economic Policy.

** All statistics unless otherwise noted compare growth between May 1977 and May 1978—the latest available data as of this writing. The data are from *New Jersey Economic Indicators*—N.J. Department of Labor and Industry and *Economic Indicators* prepared by the President's Council of Economic Advisors.

of the labor force; but because of changes in the makeup of the labor force, full employment today is variously estimated around 5 to 5½%. Increased participation in the labor force of women and teenagers, groups that historically have had above average unemployment rates, has worked to increase that rate over time. With unemployment at 6.1%, we may soon be reaching the point where there are few able persons to fill available job openings.

Labor productivity has not increased as much as expected over the past year. The less than one percent increase recorded last year (FY 78) has created concern not only because lagging productivity retards real growth but because it generates inflation. With compensation per employee rising considerably faster than productivity, unit labor costs have risen 8.3%. This rate of growth exceeds last year's 6.1% and is the largest increase since 1973-74.

Corporations fared well in FY 78. After tax profits rose 11.3% which provided substantial internal funds for investment spending. Surveys of outlays for plant and equipment suggest an 11% increase for this fiscal year (1978). But after adjusting for inflation the real growth in new capital may be less than 3%, especially after allowing for pollution control and other environmental investments.

Investment in private housing has continued to grow since the trough of the 1973-75 recession. Last year (1977), 1.9 million housing units were added to the Nation's housing stock. At the current growth rate (May 1978) approximately 2.1 million units will be built. This would be a 10½% increase over last year's performance. However, the current tightening of mortgage credit may lower the total to an estimated 1.9 million units for the full year.

Retail sales cooled a bit over the past 12 months (May 77-May 78), growing by almost 10%. However, there seemed to be a pattern of "catch up" retail buying during the early summer months of 1978 to satisfy pent-up consumer demands from the harsh winter of 1978 and to anticipate price increases. Recent sales statistics have shown a marked drop in inventories which now stand at a historically low level. The inventory-sales ratio fell from 1.47 in January 1978 to 1.40 in May 1978. Businesses are expected to boost output modestly in the months ahead to restore a more normal 1.48-1.50 inventory-sales ratio.

So far, consumers have been spending freely on automobiles and other goods. Last year American consumers cut back on their savings rate and went heavily into debt to finance their purchases. In fact the average savings rate in 1977 was the lowest in 14 years. Many analysts felt that with inflation continuing to rise, consumers were anticipating future needs. With a tighter rein on credit, consumer buying—which now accounts for two-thirds of GNP—is expected to weaken, especially against the backdrop of already large consumer debt burdens.

The real villain in the current economic scenario is inflation. Back in the soaring days of 1974, the inflation rate reached double-digit levels of 11%. Then came the recession of 1975-76, the deepest decline in business activity since the great depression days of the 1930s. The decline in business, the appearance of excess supplies of labor and productive capacity, and the stabilization of oil prices, moderated inflation to an annual rate of 9.1% and 5.8% in each of these years. But the price of suffering among the unemployed was high.

In 1977, the economy picked up speed. Inflation, as measured by the consumer price index, was 6.5%. But as the business recovery proceeded, inflation rates intensified. Rising farm prices were to blame in part but were not the full explanation. The wage-price cost-push cycle was now in full swing with higher prices driving up wages and higher wages justifying higher prices. In early 1978, consumer prices were again climbing, with January at 7.2% per annum, February 7.7%, March 8.9% and April 10.8%.

Contributing to the inflation push were two other factors: (1) The very slow rate of increase in productivity, or a very slow decline in unit labor

costs; and (2) the disappearance of slack in labor markets, as unemployment fell toward 6% nationwide.

One cannot easily dismiss the fact that the U.S. economy is beginning to approach the limits of capacity. On the basis of the Federal Reserve Board's estimates, the overall utilization rate has reached 84%. Although that is not appreciably higher than the average rate of the past thirty years, serious shortages of basic materials developed in 1973 after the average manufacturing utilization rate was only a few percentage points above its current level. Products in short supply at present include portland cement, home insulation materials and several highly specialized industrial chemicals.

Whatever the causes, the intensification of inflationary pressures are leading to the adoption of tighter fiscal and monetary policies. Both the White House and the Federal Reserve had designated inflation as Public Enemy No. 1. The Federal Reserve has responded by permitting short-term interest rates to rise. Overall, there is a growing concern that a credit crunch is on the way. This means the demand for credit will far exceed the available supply, at least at interest rates that borrowers consider reasonable.

II. THE NEW JERSEY ECONOMY

During FY 78 the New Jersey economy returned to pre-recession levels of economic growth. Personal income, a standard proxy for the State's gross product, increased by 11.4%* With approximately a six percent rate of inflation during FY 78,** the real personal income growth rate in New Jersey was over five percent.

Even more encouraging was the increase in the number of people working in New Jersey. Nearly 97 thousand new jobs were added in FY 78 to the nonagricultural sectors of the State's economy; this amounts to a 3.4% growth. For the first time since the 1960's the manufacturing and construction industries contributed significantly to the growth in employment. In the manufacturing sector employment increased by 1.9%, and in the contract construction industry by 11.9%. No doubt this reflects a sharp rebound from the recession and prolonged sluggish growth in the first years of the recovery.

The average workweek of manufacturing production workers is high in New Jersey. Over the years, it stayed below 41.0 hours, only rarely exceeding that norm. However, during 1977 and in the first half of 1978, the average workweek approached 42.0 hours (41.9 in March and April of 1978). If present economic conditions are sustained a reduction in the average workweek may be expected as employers will soon have to add new employees.

Labor (or total input) productivity is an important indicator of progress in the competitive position of New Jersey manufacturers. Labor productivity growth, along with wage increases, are two elements determining the unit cost of manufactured goods. Higher labor productivity and lower wages reduce unit costs and enhance the State's competitiveness in the national and international markets.

Lack of current statistics on output in manufacturing industries prevents us from ascertaining progress in labor productivity during the last fiscal year. However, during FY 1978, the average hourly gross earnings in the U.S. manufacturing sector increased by 8.4% while in New Jersey the increase was only 6.8%. This 1.6% growth differential in wages may be translated into approximately 0.5 to 0.6% lower production costs. Judging from previous years, when labor productivity was higher in New Jersey than in the nation, it can be inferred that the State's manufacturers achieved significant improvements in their competitive position vis-à-vis their national counterparts. This achievement, along with improvements in the State tax structure and other incentives offered to New Jersey producers, should contribute significantly to continued

---

* The other components of the State's product are: proprietor's income, depreciation of physical assets, changes in inventory balances and in the net flow of goods and services between the State and the rest of the world.

** The implicit price deflator for GNP, an appropriate measure of inflation for the State's Gross Product, was: 4.8% and 5.9% in the third and fourth quarters of 1977 respectively and 7.0% in the first quarter of 1978.

growth of the manufacturing sector. An increased industrial base, in turn, will contribute to the growth of tax revenues without the need to increase tax rates. The ability to hold tax rates unchanged will further reinforce the improved business climate. Every effort should be made to insure that such a policy is pursued in New Jersey.

The service sector (health, education, financial, real estate, business and personal services) continued to contribute to increased employment opportunities. The 3.9% employment growth rate in FY 78 is in line with the steady expansion of the State's service industry in recent years. However, wholesale and retail sales employment grew only by 1.9% over the last year. This rather slow growth (much slower than the national rate of 4%) may reflect some saturation in the development of commercial establishments, especially in light of a stabilizing population in New Jersey. For the future this spells rather slow growth of service employment unless both population and industrial growth accelerate, thereby creating more demand for services.*

Table 2.1 summarizes the results for selected economic indicators in New Jersey and compares them with national growth rates.

Unemployment rates have dropped considerably during the last year. The national jobless rate declined from 7.1% of the total labor force in May 1977 to 6.1% in May 1978. During the same period the unemployment rate in New Jersey dropped from 9.5% to 7.4% (Table 2.1). The decline in New Jersey is much steeper (22%) than in the national economy (14%). Hence, the gap between the two unemployment rates has narrowed considerably from a differential of 2.4 percentage points last year to 1.3 percentage points this year. However, the absolute level of unemployment is still very high, especially among minority groups, women and youth. New initiatives need to be undertaken to reduce the plague of chronically high unemployment rates in the larger cities and among some segments of the labor force.

Comparative Economic Performance

For more than two years, the Economic Policy Council has been describing New Jersey's continuing recovery from the 1973-75 recession. Although employment is currently at an all time high, it is difficult to assess the rate of improvement in the economy without comparing it to

TABLE 2.1

SELECTED ECONOMIC INDICATORS FOR NEW JERSEY AND THE U.S.
ANNUAL PERCENTAGE GROWTH DURING
FISCAL YEAR 1978

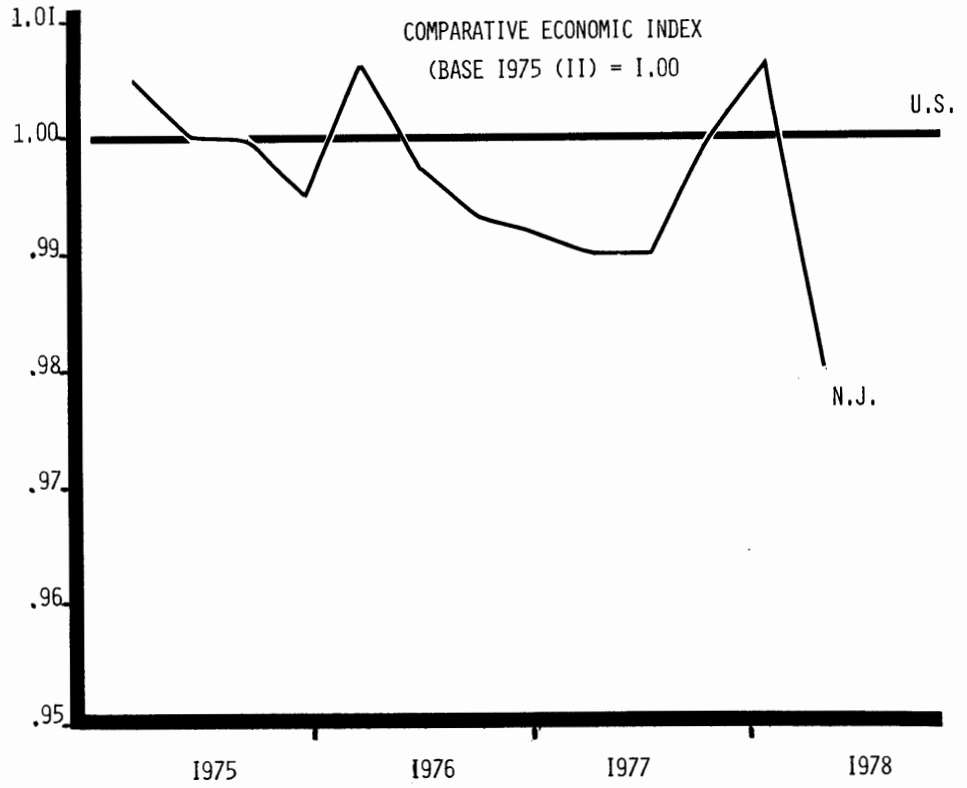
	New Jersey	U.S.
Personal Income	11.39%	11.59%
Employment:		
Total Nonagricultural	3.41	4.28
Goods Producing Industries	2.98	4.53
(a) Manufacturing	1.85	3.41
(b) Contract Construction	11.87	10.17
Services (excluding government)	3.93	4.15
Wholesale and Retail Trade	1.86	4.01
Government	2.76	3.40
Unemployment Rate	7.4	6.1

SOURCES: *New Jersey Economic Indicators*, No. 178 June 30, 1978. *Economic Indicators*, June 1978, Council of Economic Advisors, Washington: U.S. Government Printing Office.

NOTE: All percentages are based on May 1978 to May 1977 comparisons except personal income which compares April 1978 to April 1977.

* Falk, Lawrence, "The Potential for Employment in New Jersey's Service Sector," *10th Annual Report*, Office of Economic Policy, 1977.

GRAPH 2.1



an accepted standard. The Comparative Economic Index* matches growth in the New Jersey economy with national averages.

In FY 78, for the first time since the trough of the recession (1975-II), aggregate economic activity in New Jersey grew faster than the U.S. (Graph 2.1). Bolstered largely by Christmas retail sales, the 1977 fourth quarter Index rose almost one percent above the national average. The achievement was short lived as severe winter conditions drove the State's economy below seasonally expected levels and the Index fell to 98 percent in the first quarter of 1978. Although more recent statistics are needed to reassess the State economy, there are indications that a rapid "catch up" process took place during the spring and early summer months of 1978. For example, manufacturing firms have reported workweeks approaching 42 hours, an unusual length for a peacetime economy. Overall, second quarter 1978 economic statistics may be expected to show that the State is growing at about the same rate as the national average.

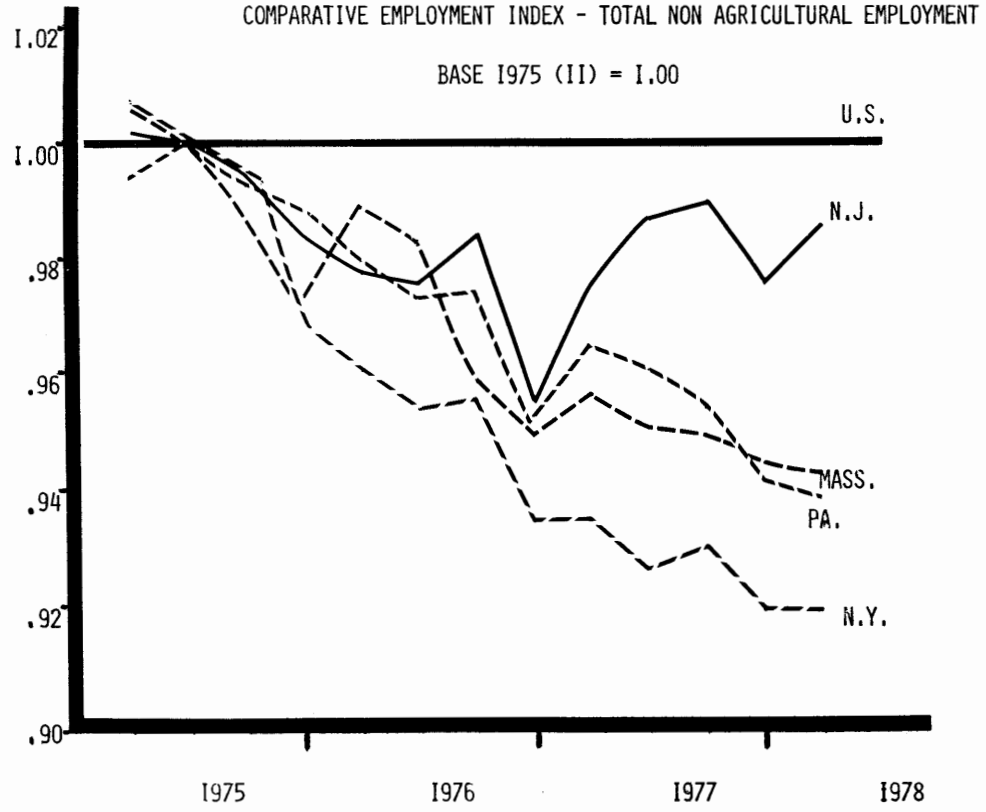
In the past, the Economic Policy Council has stated that it would be a remarkable achievement for an advanced industrialized state, like New Jersey, to continue to grow as fast as the U.S. average. Indeed, the average is inflated by rapid growth in less developed or newly developing states in the Southeast, Southwest and Western regions. A clearer perspective can be gained, however, by comparing New Jersey's economy to other industrialized states within the Northeast corridor. In past years, a simple reference to interstate unemployment rates provided a crude, but adequate, indication of economic conditions. Unfortunately, recent adjustments to the U.S. Department of Commerce's method of determining unemployment has left these statistics erratic and unreliable.

* The Comparative Economic Index—measures changes in New Jersey total Non-agricultural Employment, Personal Income and Retail Sales with their national counterparts. A CEI equal to 1.00 indicates that the State is growing at the same rate as the national economy while an index less than (more than) 1.00 reveals a slower (faster) State growth rate compared to the U.S. as a whole.

GRAPH 2.2

COMPARATIVE EMPLOYMENT INDEX - TOTAL NON AGRICULTURAL EMPLOYMENT

BASE 1975 (II) = 1.00



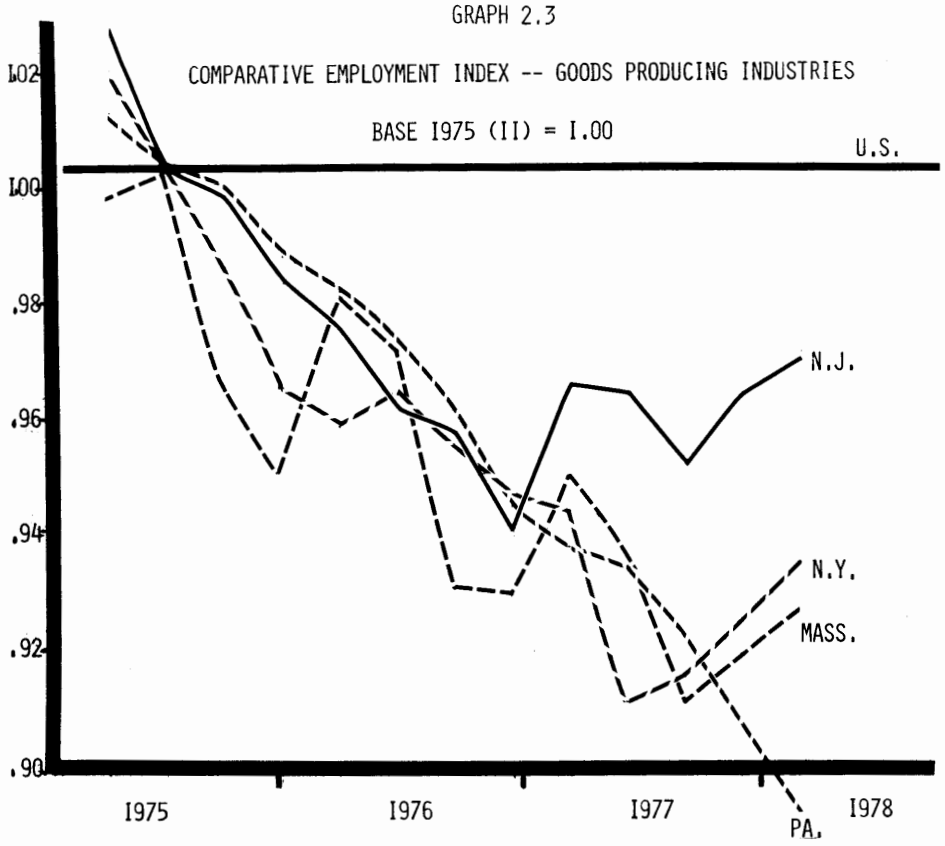
At the present time the most accurate indicator of interstate economic differentials is a measure of employment growth. The following graphs compare employment in New Jersey, New York, Pennsylvania and Massachusetts in terms of the U.S. average. The base period of the Indexes is the 2nd quarter of 1975, the official recession trough.

Most striking is that employment growth in all four of the reference states remains below the U.S. average since the start of economic recovery in 1975 (Graph 2.2). This reflects the somewhat deeper and prolonged recession experienced by the Northeastern states. Among these states, New Jersey has emerged as an exception to the relative decline in total non-agricultural employment. New Jersey reversed the downward pattern in 1977, and employment is now growing at rates commensurate with, or slightly greater than the U.S. By the end of the 1st quarter of 1978, employment growth in New Jersey is within 99% of the national average. Also encouraging is the widespread nature of employment growth. Preliminary analysis finds all the major sectors of the State's economy to be contributing, especially the mining, manufacturing and construction industries.

New Jersey's economic strength is centered in its manufacturing and construction industries which employ more than 30% of the State's labor. These industries often experience fluctuations in employment over the business cycle. However, until recently, New Jersey's goods producing sector has lagged behind other sectors in responding to improving business conditions. Previous research has found the "past failure of the State's manufacturing sector to show improvement as a major factor inhibiting the recovery of total non-agricultural employment."* Unlike its regional competitors, New Jersey's goods producing firms are now recovering in both absolute and relative terms (Graph 2.3).

* *Boom and Bust: Impact of Business Cycles on the New Jersey Economy, 10th Annual Report,* Office of Economic Policy, 1977.

GRAPH 2.3



Throughout 1977 and into 1978, employment in New Jersey's goods producing industries were growing relative to the Nation. The Comparative Employment Index fell to 94% before improving to 97% in the 1st quarter of 1978. Simultaneously, neighboring states are faring poorly; New York's goods producing industries are at the 93% level (relative to the U.S. growth) while Pennsylvania's (with problems in mining and steel production) is only 89%.

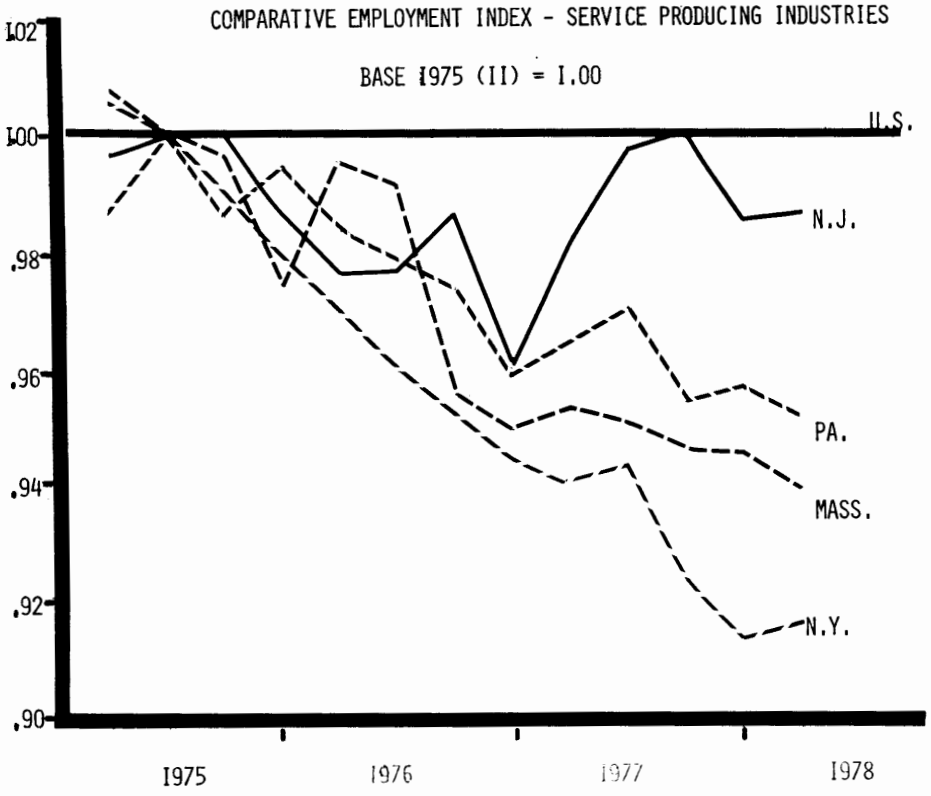
Since the late 1960's employment in service producing industries* has increased at above average rates taking up much of the slack in labor markets. This led to often expressed beliefs that New Jersey economic policy need not be concerned with its declining manufacturing sector, but should concentrate on developing its service sector. However, a study reported in last year's Annual Report** found that a significant part of service employment growth depends on overall economic growth and specifically of the manufacturing sector. The study concludes that "for New Jersey it is unrealistic to expect the recent decline in manufacturing employment to be somehow offset by a corresponding growth in the service sector. Rather the health of one sector is closely and directly related to that of the other sector."

Graph 2.4 presents comparative employment indices for the service producing industries. Employment in New Jersey's service sector declined relative to the nation until the 4th quarter of 1976 when an upward recovery began. This coincides precisely with the turnaround and subsequent improvement of the State's goods producing industries. Interstate comparisons are

* In this context we consider all non-goods producing, private non-agricultural employment, as service industries. Typically, this would include wholesale and retail trade, finance, insurance, real estate, transporation, communication, public utilities, business and personal services.

** Falk, Lawrence, *op cit.*

GRAPH 2.4



again favorable to New Jersey. Service employment growth in New Jersey is within 1% of the national average (1978 (I)) while Pennsylvania, Massachusetts and New York are still declining relative to the U.S. at levels ranging from 95% in Pennsylvania to 91% in New York.

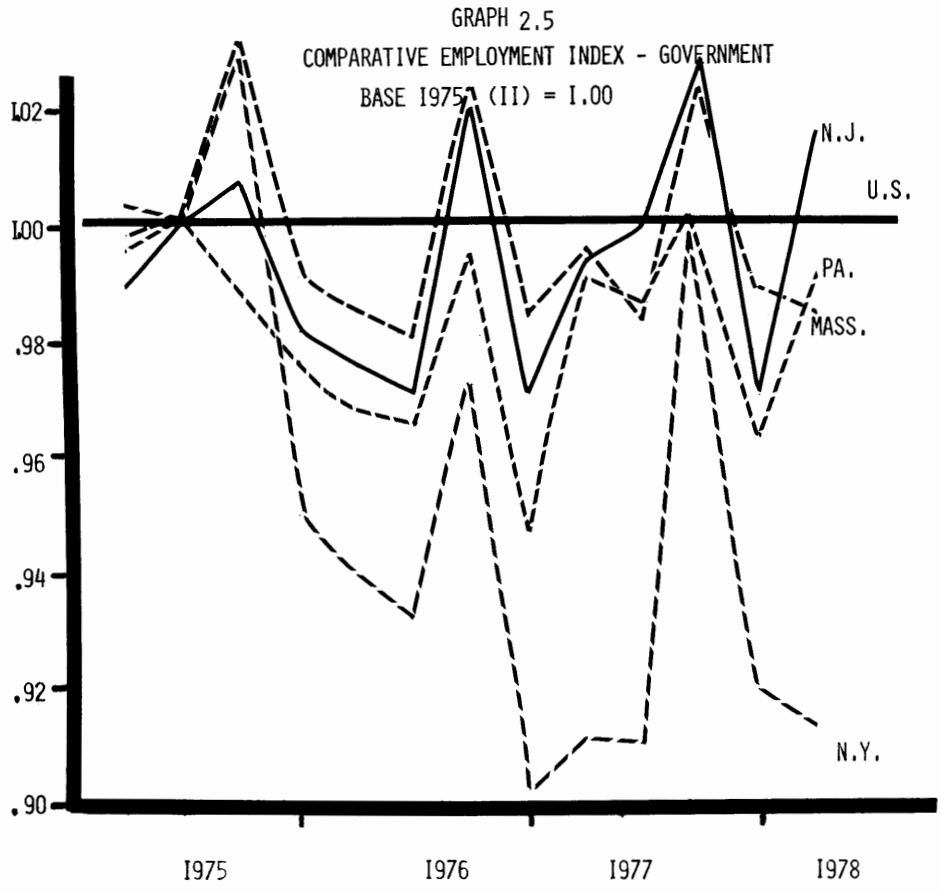
Interstate comparisons of employment in the public sector (government) are presented on Graph 2.5. Although New Jersey has fewer public employees per capita than most other industrialized states, growth in this sector has equaled the U.S. average. Indeed only New York has lagged the Northeast states in adding more government employees (this may reflect already relatively high levels of government employment in New York). The unusual annual jump in government employment in each state reflects seasonal summer employment hirings and should be discounted in assessing interstate employment performance.

The U.S. Department of Commerce also provides quarterly totals of personal income by states and Graph 2.6 illustrates the Comparative Personal Income Index for the 1975-78 period. For the most part, New Jersey declined relative to the U.S. as did the other Northeastern states. The sharp improvement in New Jersey's personal income in the 1st quarter of 1978 diverges from the downward trend experienced by the other Northeastern states and reflects relative improvements in the State's employment situation.

III. THE OUTLOOK FOR FISCAL 1978-79

The National Economy

The economy is headed for a real slowdown. Even a mild recession is a possibility for early 1979. Although there isn't any simple definition of a recession, the National Bureau of Economic Research decides when a slowdown is an official



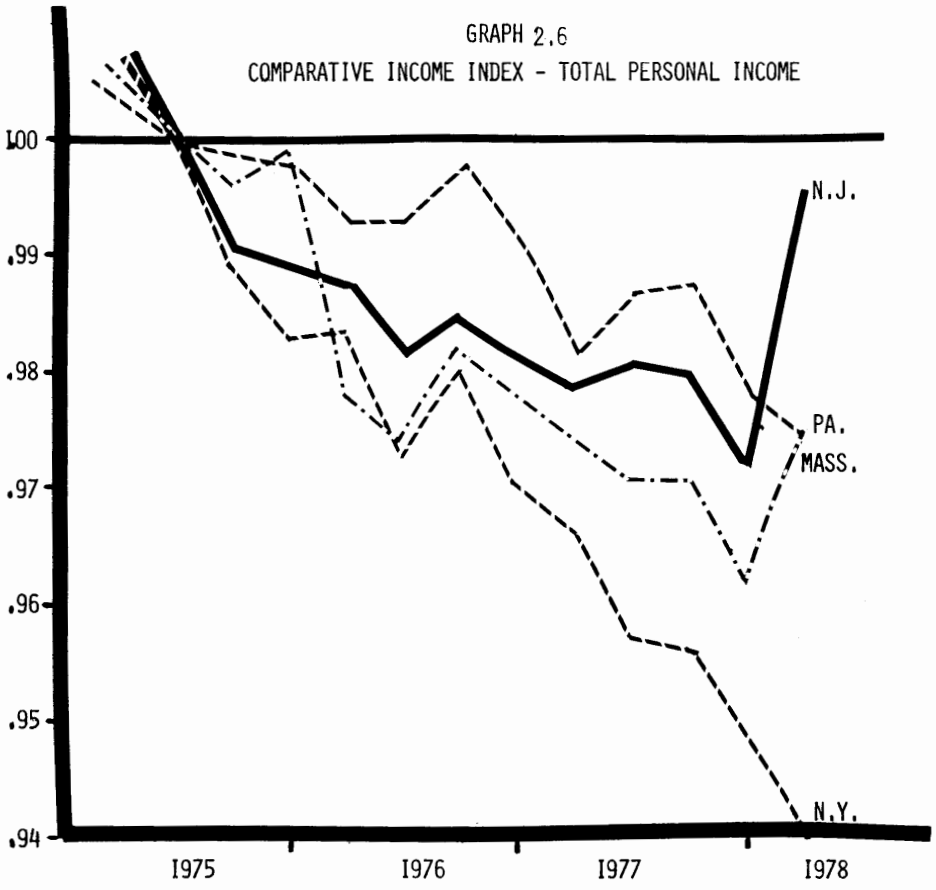
recession after reviewing a wide variety of economic indicators. One characteristic of official recessions has usually been at least two consecutive quarters of declines in real (inflation-adjusted) Gross National Product. At present, there are few reasons to be so pessimistic for the next fiscal year, but the statistics do suggest a distinct slowdown in the Nation's economy leading to what some economists call a "growth recession." That is, an economy which is growing at a rate considerably slower than its long run average rate of increase.

The Economic Policy Council expects the real rate of economic growth to dwindle to about 3½% to 4% per annum by the fourth quarter of 1978. This is a sharp reduction from the 8.0% increase in GNP recorded in the 2nd quarter of this year. Whether or not this slow rate of growth can be sustained into the first half of 1979, or whether an actual decline in real GNP will take place, is difficult to predict at this point. In any case, even slow growth in the economy will prevent further improvement in the rate of unemployment, since new jobs are required just to keep pace with the growth of the labor force.

One key factor suggesting only moderate expansion for the remainder of this year is the continuing sluggish pattern of growth that prevails in a number of other industrial countries at this time. This, of course, dampens the demand for U.S. produced goods and services.

This gloomy forecast is not based on the usual business cycle analysis. Business expansions usually end because of excesses in the economy, generally after an accumulation of too much inventory and a prolonged boom in plant and equipment expenditures.

There is no evidence today of the usual excesses in inventory buying or business capital



outlays prior to a downturn. On the contrary, these sectors of the economy look extremely well balanced, as business plans have moved forward with extreme caution and conservatism. At this stage of the cycle, instead of booming, business capital spending is showing signs of a serious lag.

The rise in interest rates are resulting in tougher lending terms such as higher down payments on mortgage loans. This will dampen housing activity over the course of the next several months. However, slower growth later this year or early next may ease the credit crunch currently being forecasted by several economists.

Inflation is likely to prove rather stubborn, especially with beef and other farm prices continuing to rise. But we do look for some easing in price pressures by mid-1979 after the economy has slowed in real growth. By then, inflation may decelerate to a still hefty 6-7% range.

This analysis leads us to fall just a bit below the consensus forecast for 1979. Each month, Eggert Economic Enterprises polls forty professional economic forecasters. The consensus opinion anticipates a 4% real growth in GNP during 1979 with a 6½% inflation rate. We believe real growth will be a touch below that rate. Overall GNP, incorporating both real and inflation-induced growth, will rise by 10%.

The New Jersey Economy

So far in 1978, the New Jersey economy fared at least as well as the National economy. However, strenuous efforts will be required to keep New Jersey on a reasonably fast growth track in the next fiscal year—especially if national economic growth slows down sharply as we expect. Obviously, New Jersey will not be able to counter the national trend, but there is a fair chance of a 4% (rather than a 3½%) real growth rate

in Gross State Product in 1979. Overall, in nominal terms, the value of the State's output of goods and services should reach 10½%. Such a growth rate would not further reduce the State's unemployment rate which is expected to remain at least 1 percentage point *above* the National average. On the other hand a combination of factors including a stabilizing population, a slower growing labor force, and out-migration should moderate any *upward* pressure on the jobless rate.

Overall, the New Jersey economy cannot rely heavily on the National economy for widespread improvements during the next fiscal year. The business cycle will simply not be favorable. But while the State cannot change the national economic outlook, it can act vigorously to deal with its own structural problems—teenage unemployment, low skilled unemployment and urban revitalization. It can aid small business. It can create a climate favorable to business, as the State did with fiscal reform, Atlantic city casinos, oil drilling and other economic development efforts. New Jersey can hold and widen its present lead over the other industrialized Northeastern states.

Recently new attitudes, new priorities, and a new pro-business climate have improved the economic climate and outlook for New Jersey. The Economic Policy Council has stressed the stability and predictability of these elements as crucial ingredients in the State's fight to avoid industrial and economic decline. Unfortunately there are voices seeking additional costly public programs that, if funded, could upset the delicate balance between adequate public services and an attractive business climate. At this time, the last thing New Jersey needs is a tax increase. A healthy economy will generate sufficient revenues for State financed services. Additional programs must be carefully viewed in terms of merit, demand by the public-at-large, and their cost to the State Treasury.

III

REVIEW OF LEGISLATION WITH SIGNIFICANCE FOR THE N. J. ECONOMY*

New Jersey has recovered from the economic crisis of the 1973-75 recession and from the political crisis over the financing of its local public schools. For the first time in several years, without the unceasing pressure of the school finance issue, the Legislature has been able to focus its programs on a number of the State's long run problems. The recognition of these problems, such as urban decline or adequate energy supplies should shift the emphasis of governmental action away from crisis reaction to crisis avoidance. Although the Legislature's economic goals were modest this year as compared to those of Congress or to those of the State's Legislature one year earlier, it can look to achievements and accomplishments that will influence the economic development of the State in years to come.

At the same time the ripple effect from the Jarvis-Gann Proposition 13 in California has the potential to limit seriously the growth of government and the public sector's involvement in private markets. Thus, before the State's Legislature creates additional programs a clear understanding of how that program effects the economy is needed. The establishment of a legislative Joint Economic Committee (SCR74) will fulfill that role by coordinating economic development programs, promoting employment programs, and reviewing the Governor's Economic Report. The bipartisan committee would provide a more consistent process for economic policy making in the State.

The following discussion cites only those new laws and proposals introduced by the Legislature during the past fiscal year (FY1978) that bear directly on the State's economy. In each case a careful distinction is made to separate bills signed into law from bills still being studied and debated in the legislative chambers.

Economic Development and Urban Revitalization

Since the onset of the 1970 recession New Jersey's preeminence as a national leader in many fields of business and industry has deteriorated. State government has responded by establishing a number of new offices, agencies, and divisions dealing with economic development or industry problems. However, many of the new economic development functions are uncoordinated and scattered among state departments dealing with other issues and constituencies. Thus development efforts are subordinated. Senate Bill 994, proposes a cabinet-level administrative department to provide leadership in formulating and directing economic policy so as to improve the State's economic base. The new "Department of Commerce and Economic Development" would consolidate existing economic agencies and provide such functions as

* Prepared by George R. Nagle, Office of Economic Policy.

industry specific research, information programs, the development of economic policies, and would conduct economic development activities essential to the maintenance of a healthy economy.

One state agency slated to be a part of the Department of Commerce is the newly created "Division of Travel and Tourism", Public Law 1977, Chapter 225. Studies by the Department of Labor and Industry found tourism to be a significant contributor to the State's economy in terms of expenditures and employment. Further analysis showed relatively few out-of-region residents were aware of New Jersey's tourist attractions. The new agency will among other things fill an information role by promoting tourism and plan for the development of the tourist industry, and to avoid exploitation of the State's limited vacation resources.

Economists have long recognized the importance of new technologies as a key element in economic growth and labor productivity and that a climate of scientific progress receptive to new products and processes can be a significant element in the establishment or growth of manufacturing and commerce. Last year this review cited a proposal to create a public entity that would promote the commercial development of technical inventions. This year we can report that legislation creating the "Office for Promoting Technical Innovation" has been signed into law (P.L. 1977, Ch. 429) and start up preparations are being made. Essentially the Office will encourage the development of new commercial products to be fabricated in N.J. by assisting the inventor and small enterprises with information on sources of capital, technical and legal aid, marketing and managerial advice.

One objective of State efforts to locate a new manufacturing or business firm is to provide jobs for local residents. In order to ensure a ready, well-trained labor pool for new firms the Legislature appropriated $1 million (P.L. 1977, ch. 461) to the Office of Customized Training. The appropriation will: (1) help train N.J. labor for actual jobs, (2) discourage the new firm from importing trained labor, (3) save the new firm money in terms of start-up expenses, and training outlays.

Long overdue is a bill (S1138) which directs the existing Office of Business Advocacy in the N.J. Dept. of Labor and Industry to consolidate the efforts business and industry in obtaining operating permits and licenses from various regulatory agencies when organizing or expanding an establishment in New Jersey.

Urban Development

Although State government is assuming a share of local financial burdens as mandated by law, the thrust of assistance to the State's cities has centered on a temporary program subject to annual legislative appropriation. State Urban Aid will, in FY 1978, return $39 million to thirty one distressed urban municipalities. To qualify a municipality must have a population of 15 thousand or more, an equalized tax base below the State average, more than 350 welfare school students, and at least one publicly financed multi-unit dwelling. Recipient governments can spend grant monies on a wide range of programs that "maintain, improve, and/or upgrade" local public services as well as for local property tax relief. Thus far most Urban Aid municipalities have used the program to subsidize employment. Budget summaries show police and fire departments receiving more than half of local Urban Aid funds, with the remainder being spent on other supporting functions.

P.L. 1978, Chapter 14, will alleviate the year to year uncertainty with Urban Aid funds by mandating the program on a permanent basis. Proponents of the legislation claim that Urban Aid cities will be able to anticipate and thereby more effectively integrate State Urban assistance into their local budgets.

Lawmakers have also recognized that several municipalities located in essentially rural areas are also suffering from big city problems, i.e. high density populations and a demonstrated inability to finance local services. A recent law,

the "Depressed Rural Center Aid Act" (P.L. 1978, Ch. 13) extends Urban Aid type assistance to these municipalities.

The recent surge of interest in restoring our urban centers has encouraged two public agencies to design strategies to acquire and construct urban industrial parks. The State's Economic Development Authority and the quasi-public Port Authority of New York and New Jersey feel that modern and efficient industrial/commercial centers can be constructed in urban areas and that job opportunities can be accessible to substantial numbers of unemployed and underemployed persons. Also industrial parks will attract other private business investment which will favorably affect local tax revenues and thereby greatly assist in the economic development and redevelopment of Urban areas.

P.L. 1977, Chapter 393, amends the "New Jersey Economic Development Authority Act", to allow that agency to acquire, design, finance, and construct industrial parks in specially designated "Urban Growth Zones". Municipalities qualifying for State Urban Aid assistance and other selected urban places can designate "Growth Zones", but in doing so they agree to suspend land use, master plan, and zoning ordinances (P.L. 1977, Chapter 423). In effect, the agreements transfer development responsibilities from local governments to a State agency. A $3 million appropriation (P.L. 1977, Chapter 460) from the unemployment Auxiliary Fund will finance EDA's Urban industrial park efforts. The appropriation requires 50% of the funds to be spent for projects located in "Urban Aid municipalities".

EDA obtained another amendment (P.L. 1978, Chapter 20) to its charter which grants the agency the authority to finance inventories, raw materials, and work in process for business firms electing to seek EDA assistance. The amendment further clarifies EDA's role to acquire equity interest, including capital stock in manufacturing and commercial firms.

Thus far the Port Authority's development plans are legislative proposals which must be ratified by both New Jersey and New York. Holding up the legislation are key clauses which grant the Port Authority the ability to acquire land by the right of eminent domain without guaranteeing fair compensation to the municipality. Port authority projects would also be tax exempt, but the local government would be obligated to supply public services. Other proposals seek to change this arrangement by either requiring full property tax payments (S92), or in-lieu payments to cover city operating costs for Port Authority facilities (A789).

Several other provisions are controversial since they fail to limit the Port Authority's action to distressed urban municipalities. Projects could be proposed anywhere within the Port Authority's jurisdiction (a 25-mile radius of the Statue of Liberty) without regard to local economic conditions. If these points can be arbitrated and the bill signed into law, the Port Authority has initial plans to invest up to $400 million in developing 670 acres of industrial parks, an amount far exceeding the modest plans and financial ability of the New Jersey Economic Development Authority. Port Authority officials estimate 30,000 new factory jobs can be created in the NY-NJ port area and that investors would match the Port Authority's investment with an additional $600 million in private funds.

Public Investment

A recent State survey of secondary school facilities in the twenty-eight urban aid municipalities found 41% of all currently utilized school buildings were built prior to 1914 and that some facilities were more than 170 years old. Essentially the findings recommended these school districts renovate and replace aged and deteriorated schools and construct new facilities to comply with the provisions of the State's "Thorough and Efficient" education mandate. Senate Bill 658 (and companion bill A1273) would authorize a $100 million State supported bond issue which would grant the Commissioner of Education the discretion to aid a local school district's capital building plans. The Commissioner shall investigate the conditions in the district, taking into consideration the number of

unhoused pupils, the rate of pupil population increase, the total tax rate of the municipalities in the district, the school tax rate of the district, the net debt of such municipalities and the school debt, the density of population, the equalized valuations allocable with respect to each child in the school district, the number of children on welfare rolls, existing and proposed educational facilities before recommending building assistance. Also, the legislation calls attention to the shortage of vocational facilities for handicapped students.

A related bill S657 authorizes the issuance of State bonds in the amount of $85 million to finance the expansion, renovation and improvement of vocational education and training facilities at county vocational schools. Of the principal amount not less than $40 million would be allocated to provide vocational education and training facilities specifically for the education and training of handicapped pupils.

This November, New Jersey voters will probably vote on two bond issues totaling $125 million for flood control (S1194) and institutional facilities for the retarded and mentally ill (S1213). The two measures received legislative approval but need the Governor's signature before they are placed on the ballot.

The most popular public investment favored by the State's population is expenditure on land for recreation and conservation. The State's Green Acres program will receive a $30 million appropriation (P.L. 1977, Ch. 338) pursuant to a 1974 Bond Act. The appropriation mandates $20 million to be spent on land development, an often neglected aspect of Green Acres, and $10 million on land acquisition.

With the proceeds from the 1974 Green Acres bond referendum running out, the Assembly is considering another $200 million debt (A1428) to continue land acquisition and open space programs.

A different approach to open space preservation is defined in A373, the "Municipal Density Transfer Act." For many years New Jersey has experienced a suburbanizing trend. Indeed Chapter IV spells out many factors encouraging residents to leave urban centers. This trend has not only exacerbated urban decline but has unduly pressured the State's agricultural sector. The N.J. Department of Agriculture estimates that 10,000 acres of farmland is sold for development annually. While development is necessary to renew and restore declining areas of New Jersey care must be exercised in undertaking physical development that adversely impacts urban areas and leads to a permanent loss of natural resources.

Traditionally local governments used various zoning and land use controls to limit creeping suburbanization, however the landmark Mount Laurel decision provides a mechanism for developers to override local ordinances. New Jersey lawmakers are currently reviewing legislation to provide local governments with the appropriate statutory framework to respond to the pressures of haphazard development. The key to these measures is the recognition that the right to own land is separate from the right to development and that the development right can become a negotiable instrument. The Municipal Density Transfer Act would permit local jurisdictions to set aside portions of publicly or privately held land in permanent preservation zones where new development would be prohibited. The legislation also requires the municipality to establish other zones where development is desired and where the right to develop can be transferred and be exercised. The proposal will apply to agricultural preserves, aquifer recharge areas, historic zones, and other esthetically appealing areas.

A related measure (SCR24) proposes to amend the New Jersey Constitution, subject to voter approval, to allow the State to purchase development easements to retain agricultural land.

A more modest approach to orderly development is a measure (A939) to allow an individual to "bank" his land for a specified number of years. In return for setting aside land for 5 to 10 years the owner is granted a property tax reduction ranging from 60 to 75 percent of the tax due on land assessed at market value. If the

owner develops the property during the contract period a rollback tax is assessed.

Public Finance and Intergovernmental Relations

Public assistance is one of the perennially debated social issues. Principally these discussions question the responsibility of different levels of government to finance and deliver welfare benefits. Certainly urban areas receive the majority of benefits but are least able to finance the welfare bill.

The federal government sets broad program guidelines and the states assume the discretionary responsibility to mandate levels of assistance and other program details. Since all three levels of government (federal, state and county) are involved in the delivery of public assistance services, it stands to reason that costs are shared as well.

Numerous studies have attacked this cost sharing approach pointing up inequities related to ability-to-pay. Indeed the Economic Policy Council has repeatedly called for federal assumption of the welfare burden, citing poverty as an issue of national importance and that differing state laws have disrupted economic choices resulting in migration to states offering higher benefits.

This year, bills have been introduced which would have the state assume the entire county welfare burden for Aid to Dependent Children (S568) and General Assistance (A1501). These proposals take a small step in broadening the tax base from which welfare services must be financed. But, federalization would further broaden the tax base and would align the cost of public assistance more closely with the benefits.

Last year the *Annual Report* reviewed a series of new bond financing laws that pledged statutory State aid to repay the debt service on local government general obligations and on school district bonds. The Qualified Bond Acts reduced the risk to investors and as a result the credit ratings of many New Jersey municipalities improved. A package of bills (S952, 953, 954, 955) has been introduced which would permit the sale of "refunding bonds" to retire outstanding local debt. The "Refinancing Bonds" would be sold at lower interest rates replacing bonds issued when many municipalities were considered high risk investments. Lower interest rates will reduce local debt service which may lead to reduced property tax rates.

Perhaps the most significant piece of legislation signed into law this past year is ironically only three sentences long. P.L. 1977, Chapter 299 repealed the repealer clause of the New Jersey Gross Income Tax Act. This measure was expected to renew the bitter debates that characterized pre-income tax legislative sessions, but instead passed with little opposition.

A related measure (P.L. 1977, Chapter 414) continues indefinitely the residential tenants property tax rebate.

The most controversial element of the income tax package was the 5% spending caps on local and county budgets. Since their inception there has been special interest pressure on the legislature to modify or eliminate the 'caps'. Yet the spending caps have proved to be an effective method of holding down local property tax rates. After the homestead rebates are taken into consideration, property taxes declined in 566 of the 567 municipalities. Also the credit ratings of many municipalities improved. However, the budget caps are due to expire on December 31, 1979. S1245 proposes an extension to the law through the end of 1982.

Each legislative year produces a number of tax proposals or changes to existing tax laws. This year an attempt is being made to organize and coordinate tax legislation by creating a Joint Committee on Tax Policy (SCR64). If the Committee is organized, first priority will be to review and assess the tax reform program of 1976, including the Gross Income Tax Act, and recommend amendments or supplements.

An important issue defining the spending and tax limitations imposed on local jurisdictions by

the State government is currently being studied and debated in the legislature. At issue is the moral responsibility of State government to mandate new programs and pass on their costs to municipalities. A1513 would require the State to fund the full cost of such programs. Another proposal (ACR 70) would submit to public referendum a constitutional amendment to assure municipalities that tax losses due to legislative programs for tax rebates, credits, or exemptions would be reimbursed to the affected municipalities in proportion to their loss.

There are two general approaches to improve the yield of existing state taxes; raise the statutory rate, or improve tax enforcement. The latter is often overlooked, but assembly bill 1326 will address the issue by allowing New Jersey to join the Multi-State Tax Compact—a joint agency of states working together to improve their administration of tax laws. Created in 1967 the tax agency focuses on joint corporate income tax audits of large multi-state corporations. At question are the methods used by multi-state firms to allocate corporate profits to individual states. Presently, New Jersey tax officials must accept the multi-state firm's estimate of nationwide profits and the share of profits allocated elsewhere. Multi-State tax audits could be conducted, but the time and cost involved prohibits this from widespread practice. Through the tax compact member states (19 in all) share the expenses of a team to audit corporations located in member states.

Although the Economic Policy Council strongly supported the 1976 Tax Act and business tax reform package, the Council did argue for the gradual phase-out of the Corporate Net Worth Tax. This tax is based on wealth and bears little relationship to ability-to-pay, and serves to discourage investment in New Jersey. Currently, there are two bills (S911, A325) that would exempt new capital construction from assessment and as "old" taxable investments are retired the tax would be phased-out.

Plans to create investment incentives have once again been proposed. Assembly 1165 and Senate 383 allow for a tax credit against the corporate income tax equal to 2 or 3 percent of the value of investments in manufacturing or research facilities.

Businesses have often complained that mandated pollution standards have forced large investments for unproductive purposes. Some steps are being taken to exempt such equipment from taxation. Senate 533 carries this further by proposing a credit against the Corporate Income Tax in an amount up to 50% of the actual cost of operating any equipment used for the control or abatement of air and water pollution.

Social Services and the Welfare State

The principal criticisms against welfare benefits center around alleged disincentives to work. Although many on the welfare rolls cannot work, those who can are eligible for identical benefits. A new State law (P.L. 1977, Chapter 286) grants the Commissioner of Human Resources the authority to establish two levels of public assistance for employable and unemployable persons. Also the law requires employable persons (receiving public assistance) to perform public work.

Senate Bill 860 proposes the establishment of an energy coupon program which can be used to pay household utility and home heating bills. The bill assigns the Public Utility Commission the responsibility to establish a sliding scale of discount rates which correlate with ranges in family incomes. Once need is determined a prescribed limit on allowable purchases will be certified. This bill will supplement last year's lifeline utility law.

New Jersey has a serious shortage of physicians in many communities throughout the State. The Legislature has proposed, (A32), to encourage young doctors to practice in these areas by offering scholarships in return for consigned service in physician-short communities.

Regulation

In Washington, D.C., the cost of regulation to consumers, taxpayers, motorists, businessmen, homeowners and investors is becoming a hotly debated issue. A recent study* found government regulations to be America's number one growth industry. In 1979 the administration and compliance of regulations are expected to exceed $100 billion. States have considerably less responsibility to regulate yet a number of important market functions are controlled by the rules and regulations that flow from the State House. This year new or amended regulations are being designed for the auto insurance industry, interest rates and lending terms, energy, and workmen's compensation.

The number one issue is auto insurance reform. In New Jersey an insurer must apply for rate increases through the Department of Insurance. Many of these requests have been denied by the regulating authority, leading to underwriting losses of $112 million in 1977, according to industry estimates. Insurers have responded by leaving the New Jersey market or by placing more drivers into an assigned risk pool where higher rates may be charged. Currently, age, sex, marital status, and urban location determine a driver's assigned risk status; not his driving record.

Early in this Legislative year a special appropriation (P.L. 1977, Ch. 302) funded a temporary commission to study the State's auto insurance problems. Some of the commission's findings, recently published, have been drafted into legislation and are now winding their way through the legislative process. Two measures, A1286 and A1416, deal with cost containment. The bills adjust injury awards and coverage thresholds to rates of inflation.

The heart of the debate is the Administration's plan to abolish the assigned risk pool and its expensive rate surcharges and create a new surcharge system based on driver experience. Assembly bill A1120 would increase insurance rates for drivers convicted of moving violations (points). The so-called "Merit Rating Plan" should reduce the rates of all good drivers regardless of where they live and increase the cost of insurance to reckless drivers. The proposals would, however, retain the State's right to approve overall rate increases.

Stability and high rates of residential construction activity have been continuing and are important goals of national and State economic policy. One aspect of the housing problem concerns the provision of an adequate flow of mortgage financing at appropriate interest rates. Inflationary conditions and high capital market interest rates have caused mortgage rates to double in the last 10 to 15 years. In periods of peak tight money conditions funds flow out of thrift institutions and, in the extreme, mortgage markets are disrupted to the point that funds are not available without regard to interest rates. Attention is being focused increasingly on strategies to reform mortgage markets. Senate Bill S1247 authorizes the variable rate mortgage (VRM) on which the interest rate is allowed to vary over time according to changes in an index of long-term U.S. bond yields. Although critics claim homeowners would face rising mortgage payments in the fuure, safeguards carefully regulate interest rate increases. Also, VRM mortgages are a two-way street, and borrowers may receive the good news of mortgage rate decreases in the future.

For VRM's to operate successfully the mortgage rate must be able to move up or down with market conditions. However, a State law prevents interest rates from rising above the usury ceiling. Historically, usury ceilings were set to protect uninformed borrowers from unscrupulous lenders. It would seem today, with the benefits of excellent communication and advertising that this risk is small. Currently, the usury ceiling is used to keep market interest rates low. However, financial institutions have responded by either requiring larger down payments (for which interest rates are lower) or to shift their

* "The Costs of Government Regulation of Business," Center for the Study of American Business, Washington Univ., St. Louis, 1978.

lending operations out-of-state leaving many potential New Jersey homebuyers without financing. Several bills introduced in the legislature (A99, A100, A1429) would eliminate this market distorting regulation by pegging the usury ceiling to an index of U.S. bond yields. The new regulations should be realistic so as not to discourage mortgage lending.

New Jersey was the first state to create a Department of Energy and is still among the leaders in designing an effective energy policy. A Department supported bill (S1179) would extend the agency's area of responsibility to the long-term planning and siting of energy generating plants.

This year's legislature, also struggled with a proposal (A277) to increase sharply the State's minimum wage. As frequently argued the minimum wage attempts to assure a decent standard of living to the lowest paid work. An amended Senate Bill 277 will set the legal minimum wage at $.05 an hour above the prevailing U.S. minimum wage.

The assumption that higher minimum wages help the poor is not necessarily true. They often cause a reduction in the employment of poor teenagers. Also business firms often cannot afford to offer useful on-the-job training to workers whose net product is lower than the minimum wage. Thus, opportunities for training are often not available to this group and unemployment prevails.

Sufficient research evidence suggests the introduction of a lower minimum wage for teenagers, or more generally, for inexperienced workers. Researchers conclude that a youth differential is a desirable policy which will increase the youth-adult wage differential and even out their unemployment rates.

Summary

The response of this year's legislative session will have little immediate effect on the improving N.J. economy. There is considerable public sentiment against more government involvement and, in practical terms, spending caps have left little room for new or expanded public programs. Instead lawmakers have attempted to reorganize the delivery of services (Joint Economic Committee, Dept. of Commerce, etc.) and focus limited public resources where they will do the most good (such as Urban Aid, and Safe and Clean Streets).

Development efforts (EDA or Port Authority) spearheaded this year's economic legislation but these programs are slow to implement and their benefits are a long-term phenomenon. We expect to see more emphasis on these so-called long-run structural problms in future legislative sessions. A good place to start would be a program to reduce teenage unemployment as well as a review of mandated taxes on labor such as workman's compensation reform, and unemployment insurance.

Conspicuously absent from this year's economic legislation are bills relating to urban revitalization, the overall theme of this *Annual Report*. Although the Governor has committed his administration to the urban problem, the complexity of the issue belies immediate government action. Currently, a cabinet level task force, with help from the Economic Policy Council, is drafting a State Urban Strategy. Perhaps a year from now this report will summarize the accomplishments of the Urban Task Force.

IV

URBAN REVITALIZATION POLICY—A GENERAL FRAMEWORK*

The revitalization of American urban centers has become a national and State policy priority. The objective of this paper is to provide a State urban policy structure based upon economic principles. Rather than reciting a litany of city problems and potential palliatives, cities and metropolitan areas are viewed as spatial resource arrangements which have resulted from the rational behavior of citizens, firms, and institutions. The decline of older industrialized cities can then be shown to result from market forces and public sector policies.

It is concluded that public policies led to a distortion of resource prices within metropolitan regions. Consequently, the long-term policy toward city revitalization should be a phased alteration of those existing programs, regulations, and taxes which have distorted the relationship between resource prices and actual costs. During the long-term adjustment period there will be many near-term problems, frequently producing significant efficiency and welfare losses. State near-term urban revitalization policy should seek to minimize these losses given government's scarce resources, and do so in a manner which continues to rely on voluntary individual actions in the private sector.

The first section of the paper examines the elements of rational location and investment behavior by households and firms. Readers not inclined to theoretical discussions, may wish to proceed immediately to the second section (p. 35). Section II considers metropolitan household and firm behavior in the context of the actual market forces and government policies of recent decades. Particular attention is given to the impact of government policies on intrametropolitan resource prices. In Section III the efficiency and welfare costs of near-term metropolitan disequilibrium are reviewed and policies for minimizing those costs are suggested. In the Summary a State revitalization policy structure is proposed.

Section I—Rational Behavior

Households

Households, firms and institutions generally make their location decisions in a rational manner. The expected gains for relocating households vary considerably with the distance moved. The greater the distance, the greater the influence of the expected earnings stream at the destination site on the location decision. The shorter the distance, the greater the role of housing and housing service preferences.**

---

* Prepared by Dr. John E. Stapleford, Office of Economic Policy.

** Except where noted, the discussion draws from the following excellent papers: Michael J. Greenwood, "Research on Internal Migration in the United States: A Survey", *Journal of Economic Literature*. Volume XIII, June 1975, pp. 397-433; Peter A. Morrison, "Migration from Distressed Areas: Its Meaning for Regional Policy", RAND, October 1973, R-1103-EDA/FF/MIH; R. Paul Shaw, *Migration Theory and Fact, A Review and Bibliography of Current Literature*, Regional Science Research Institute, Philadelphia, Pa, 1975; and J.B. Lansing and E. Mueller, *The Geographic Mobility of Labor*, the Survey Research Center, Institute for Social Research, Ann Arbor; University of Michigan, 1967.

American mobility rates have exhibited remarkable stability over the past quarter century. Every year nearly one out of every five Americans relocate. Of the movers, more than six out of ten relocate within the same county, two out of ten relocate within the same state and the remaining two move to another state. Over seventy percent of relocating households settle in a metropolitan area and three-quarters of those households are relocating within the same metropolitan area. This intrametropolitan movement of households represents the largest fraction of all residential location activity and has important consequences for the spatial distribution of economic activity in urban areas.*

The propensity to move to a different region varies indirectly with age and directly with educational and occupational attainment. The older the individual, the shorter the benefit stream from an employment change and thus the more significant the relocation costs. As education and occupation status increases, the risks and uncertainty associated with a move diminish due to increased awareness of other localities, employment information sources and actual job opportunities. Although an unemployed worker is somewhat more likely to migrate than an employed worker, the chronically unemployed, those with low skill and educational levels and blue collar workers, exhibit little mobility.**

Interregional household migration generally responds to market forces. Areas with high incomes, low unemployment and high growth in employment, exert a greater pull on migrants than the push which results from contrary conditions in the originating places. In the main, labor migration gravitates toward higher income opportunities. Generally migrants realize gains in well being from relocation which exceed the costs incurred in moving. Mills, for example, after examining postwar spatial differentials in black earnings, housing, health, mortality, and education concludes: "By almost any measure, life is better for blacks in the cities than in small towns and rural areas from which they came."†

It is not clear, however, what the social (and resource) costs associated with accommodating large regional shifts in population are, nor how the concomitant regional inequities in both the sending and receiving zones should be mitigated. Heavy out-migration from rural areas siphons off the young, the more educated, and the more skilled individuals, dampening the economy and leaving behind persons whose age and skills make them less able to cope with difficult economic conditions.‡ The social costs to central cities of in-migrant households, especially in local public services, often exceed the households' personal costs of moving. One aim of federal and state policy should be to ease the near term impacts on local communities resulting from significant population shifts. Regardless of the form this mitigation takes, the facilitation of interregional (interstate) household mobility by the federal and state governments is in the interests of economic efficiency and individual well-being.

In the category of intraregional (metropolitan) movements, individuals continually seek adjustments in their consumption of goods and services, given their budget constraints. When a household, given its income constraint, initially decides to locate in a community, we expect it to be satisfied with respect to housing, land, neighborhood and public services, and workplace, shopping and entertainment access from the

---

* John M. Quigley and Daniel H. Wienberg, "Intraurban Residential Mobility: A Review and Synthesis", Working Paper 774, October 1976. Presented at the North American Meetings of the Regional Science Association, Toronto, Canada, November 12-14, 1976.

** The direct impact of welfare benefits upon interregional migration of unemployed persons has not been empirically substantiated. Existing specified models do not separate over time positive changes in welfare payments from changes in welfare populations nor place welfare benefits into real terms. Contrary evidence is available from Ostrow and Dutka (*Work and Welfare in New York City*, Johns Hopkins Press, 1975) who found that the average migrant on welfare in New York City spent three years trying to succeed in the labor market before applying for welfare.

† Edwin S. Mills, "Economic Aspects of City Sizes", in the Commission on Population Growth and the American Future's Research Reports, Volume V, *Population Distribution and Policy*, edited by Sara M. Mazie, Washington, D.C., Government Printing Office, 1972, pp. 387-394.

‡ Peter A. Morrison, "Population Movements and the Shape of Urban Growth: Implications for Public Policy", Commission on Population Growth, *op.cit.*, p. 310.

residential site. It seems improbable that all households would remain satisfied for a long period of time. On the demand side, changes can arise from shifts in real income, from new preferences as household composition and employment change, or alterations in household expectations regarding the price of services at other locations. Changes in supply may stem from physical deterioration of neighborhoods, from relocation of retailers and employers altering household access costs, and from changes in the prices and/or the mix of public services relative to other goods.

Once a household is out of equilibrium, it suffers a loss equal to the difference between the value of consuming its preferred quantity of housing services in the optimal and current location.* The household will move when this loss, or level of dissatisfaction, exceeds the costs of moving. The costs of moving include not only the direct costs for the physical transportation of household possessions, closing costs, transfer taxes, security deposits and the like, but psychic costs as well. Since length of residence is positively correlated with age, the psychic costs of disrupting friendships and social ties most likely increases with age. The disruption of children's lives is a factor here, too, and depends on the age of the children. Peak intraregional mobility occurs among childless households and households with children under the age of six (preschool).

Housing itself is not a homogeneous good but rather a composite bundle of commodities or services providing a variety of kinds of satisfactions to users. Individuals can be expected to substitute between housing and other commodities and also between various components within the housing bundle. For example, increases in commuting time are frequently exchanged for more land at lower prices, or married couples with school age children generally prefer a better-than-average school system with higher-than-average taxes to a below school system with lower-than-average taxes.

The exact ranking and importance of government services and taxes to the intrametropolitan relocation decisions of households is difficult to determine. Empirical research does demonstrate that whenever the proper economic conditions exist, local tax-expenditure differentials influence the price of housing.** As government benefits rise or as the tax bill falls, a location will (all other things being equal) become more attractive to a household. Through intrametropolitan tax, pricing and expenditure differentials government policies may, therefore, influence the intrametropolitan distribution of households.

On the whole, however, the incidence of city tax bills on high and upper middle income households may be overstated. First, the nonresidential proportion of the city property tax base generally exceeds that of the suburbs. This lowers city residential property tax rates which would otherwise be even higher than in the suburbs.† Second, properties in stable or upward transitional city neighborhoods are usually underassessed.‡ Third, high and upper middle income households are able to pass on much of their local tax costs through federal tax credits. Finally, as Orr discovered in a study of residential locations in Boston, high and middle income households are relatively insensitive to housing costs. While the intra-metropolitan location decisions of low income households rest on the economic factors of access to employment

---

* John M. Quigley and Daniel H. Wienberg, "Intraurban Residential Mobility: A Review and Synthesis", *op. cit.*

** For example: David N. Hyman and E.C. Pasour, Jr., "Real Property Taxes, Local Public Services and Residential Property Values", *Southern Journal of Economics*, Volume XXXIX, No. 4, April 1973, pp. 601-611; and Arthur D. Little, Inc., *A Study of Property Taxes and Urban Blight*, for HUD, H-1299, January 1973, Government Printing Office #2300-00239, p. 60; and Wallace E. Oates, "The Effects of Property Taxes and Local Public Spending on Property Values", *Journal of Political Economy*, Volume LXVII, November/December 1969, pp. 957-971; and Larry L. Orr, "The Incidence of Differenial Property Taxes on Urban Housing:, *National Tax Journal*, Volume XXI, September 1976, pp. 253-262; and *Income, Employment and Urban Residential Location*, Academic Press, 1975; and Stafford Smith, "Property Tax Capitalization in San Francisco," *National Tax Journal*, Volume XXIII, June 1970, pp. 177-194; and John H. Wicks, Robert A. Little, and Ralph A. Beck, "A Note on Capitalization of Property Tax Changes," *National Tax Journal*, Volume XXI, September 1968, pp. 263-66.

† For an analysis of economic effects of fiscal consolidation for metropolitan areas in northern New Jersey see David F. Bradford and Wallace E. Oates, "Suburban Exploitation of Central Cities and Governmental Structure", University of Chicago, Urban Economics Report #108, December 1972.

‡ Arthur D. Little, Inc. *A Study of Property Taxes and Urban Blight, op. cit.*

and housing costs, in their location decisions,* high and middle income households weigh the quality and mix of municipal services, particularly personal and property safety and education, even more heavily than taxes.

Firms and Institutions

Business firms operate and locate to maximize profits. Product differences entail considerable variation in the cost, production, and marketing functions of firms. Thus, the treatment of firms' locational behavior will be facilitated by a separate examination of manufacturing, service and retail/wholesale activities.

The interregional location behavior of manufacturing firms centers upon access and the costs of production inputs. If production costs were everywhere equal, returns to scale constant, and product markets fixed, firms would locate to minimize unit transport costs.** Firms would be either materials or market oriented. If the weight or bulk of a material resource is significantly reduced during the production process, such as in the manufacture of paper, iron or steel, firms favor sites where material resource transport costs are low. Firms whose products are more costly to transport than their materials, such as manufacturers of beer, ice cream and newspapers, favor sites close to major product markets.

Since production costs are not everywhere equal, firms have to consider major spatial differentials in individual production input costs as well. These cost considerations revolve around the availability, quality, suitability and stability of the supplies of labor, energy and natural resources (e.g., water, woods, mineral extracts). The interregional location choices of firms are based primarily upon these major costs differentials. There is little that state and local government policies can do to significantly alter these differentials, and consequently, state and local government policies have limited impact on interregional (interstate) manufacturing migration.

Approximately eighty to ninety percent of all relocating manufacturing firms settle within twenty miles of their original site.† For migrating firms which have chosen a region or for firms relocating within a region (metropolitan area) intraregional differentials in agglomerative economies (advantages arising from a concentration of peoples and firms), land costs (including land availability and rents), taxes, regulations and public services, social environment (e.g., crime, fire risk) and amenities take on more importance. The sensitivity of a firm to these intra-regional differentials varies according to the firm's size, market and product line. Agglomerative economies, for example, are most important to firms with regional and national markets and/or to smaller firms producing specialized products (especially intermediate goods). Manufacturing firms serving local rather than regional or national markets are least responsive to intraregional cost differentials and more responsive to product market access. Land prices have significant impacts on the location decisions of manufacturing firms making products that require large single-story plants. Within mature metropolitan areas at least half of the firms moving from the cities to the suburbs, cite the need for space as the most important relocation factor. Generally, plants that relocate are: smaller than other plants, in need of more space, not capital intensive, single plant companies, fast growing, but still exhibiting immature supply and sales channels.‡

---

* Larry L. Orr, *Income, Employment and Urban Residential Location*, Academic Press, 1975, Chapters 4 and 5.

** John E. Jackson and Arthur P. Solomon, "Urban and Regional Development: A Critical Review of the Literature", Joint Center for Urban Studies, Cambridge, Massachusetts, 1976, and R.C. Estall and R.O. Buchanan, *Industrial Activity and Economic Geography*, Hutchinson & Co., London, 1972.

† Roger W. Schmenner, "The Manufacturing Location Decision: Evidence from Cincinnati and New England," Harvard Business School, Cambridge, Massachusetts, June, 1977.

‡ Roger W. Schmenner, "Industrial Location and Urban Public Management" and "The Manufacturing Location Decision: Evidence from Cincinnati and New England", Harvard Business School, Cambridge, Massachusetts, June 1977; *The Impact of Alternative Fiscal Mechanisms in Philadelphia.* Appendix E, Center for Urban Policy Research, Rutgers University, New Brunswick, New Jersey, February 1977; and Dun and Bradstreet, "Factors Influencing Industrial Migration: A Study of Firms Which Have Moved To, From or Within the State of New Jersey", New Jersey Department of Labor & Industry, December 1975.

The impact of tax differentials, including tax incentives, on mobility and location choices is relatively minor to most firms. While tax savings are as desirable to the firm as any internal cost reduction, intraregional differentials and incentives represent a marginal reduction in tax bills which are already a minor portion of production costs. Nor does a significant "tax illusion" appear to exist. Research indicates that among both inter and intra regionally migrating firms only one out of ten consider tax incentives as critical to their location decision. Of intrametropolitan movers as many as three-quarters of the firms may move to locations with similar or *higher* tax rates. Moreover, from the standpoint of public objectives, reductions in costs must be translated into lower prices in price sensitive product markets for subsequent changes in output and employment to occur. If all other things are equal, tax differentials may be a significant locational inducement; all other things, however, are rarely equal. Geographic variations in taxes rarely exceed five percent of the geographic variation in the total costs for factors such as labor, transportation and raw materials.* At best, tax incentives serve as an indicator to firms of local government's attitude toward the business community.

This is not to say that taxes on business cannot have sizable impacts on investment behavior by existing firms. Research has shown that the major interregional differences in employment growth stem from various degrees of expansion and contraction of existing firms and industries. To a lesser degree, the same holds for intrametropolitan changes. Initial research indicates that one quarter of the decline in manufacturing employment in older industrialized cities may be attributed to suburbanization of firms and two-thirds to net contraction and net failure.**

Investment decisions by firms are based upon the spread between the present value of the anticipated stream of returns and the current investment cost. The size of the spread depends on many factors. Taxes on investment instead of profits increase investment costs and discourage expansion and modernization, especially critical to firms in mature cities.† New Jersey's recent repeal of the sales tax on equipment and machinery and the business personal property tax should stimulate capital formation.

The more uncertain the future, due to market imperfection, highly variable tax policies, or varying risk conditions, the greater the discount rate applied to investment revenue streams. Government tax incentives such as interest rate subsidies, investment tax credits and accelerated depreciation allowances can stimulate tax credits and accelerated depreciation allowances can stimulate capital formation by increasing net operating revenues. Among alternative incentives, industrial revenue bonds may be more efficient than property tax abatement given the federal tax credit available to firms for local property tax payments.‡ Research evidence generally indicates that financial assistance is more effective in inducing investment by existing firms than in attracting new firms to an area. Development authorities tend to assist larger, more creditworthy firms who could have obtained funding through other sources.¶ For larger firms, revenue bonds act as a substitute for private capital while for smaller firms, bonds may fill a genuine credit gap.

---

* "The Effects of Taxes and Public Financing Programs on Local Industrial Development... A Survey of the Literature", Agricultural Economic Report #133, Economic Research Service, U.S. Department of Agriculture, Washington, D.C. May 1968.

** Peter M. Allaman and David L. Birch, "Components of Employment Change for States by Industry Group, 1970-72", Working Paper #5, Joint Center for Urban Studies of MIT and Harvard Universities, Cambridge, Massachusetts, September 1975; Roger W. Schmenner, "Industrial Location and Urban Public Management", Harvard Business School, Cambridge, Massachusetts, June 1977, pp. 6-7; and Raymond J. Struyk, "Empirical Foundations for Modeling Urban Industrial Location", *Journal of the American Institute of Planners*, Volume 42, #2, April 1976, pp. 165-173.

† For a discussion of New Jersey business taxes, see George R. Nagle, "The Need for Business Tax Reform" in the *Ninth Annual Report*, The Economic Policy Council and Office of Economic Policy, State of New Jersey, Trenton, September 1976.

‡ Laurence H. Falk, "Industrial Land Grants for Urban Revitalization", *Tenth Annual Report*, The Economic Policy Council and Office of Economic Policy, State of New Jersey, Trenton, August 1977.

¶ Economic Research Service, U.S. Dept. of Agriculture, 1968, *op. cit.*

Although variations in product and resource markets will cause exceptions, manufacturers generally have more geographic freedom in choosing a site than do wholesalers and business service firms, while consumer service firms and retailers are the most constrained. Retailers and consumer service firms must be in close proximity to consumers and their location choices are dictated by the spatial distribution of resident households and daytime workers. Government policies can influence the location of retail and consumer service activities primarily through the government's influence on the distribution of the residential population and to a lesser extent by its influence on the location of manufacturing and business services. Business service firms traditionally locate in or near the city central business district where agglomerative economies permit a high degree of specialization, thus minimizing unit costs. So long as the efficiency gains from specialization and agglomerative economies in the city are sufficient to offset the tax and other intrametropolitan site cost differentials, business service firms would be expected to remain relatively centralized.

Section II—City Development and Long-Term Policies

People and the resource choices made by people are the prime forces by which cities come into existence. In addition, the policy choices of people in government lead to change in resource prices and thereby alter individuals' resource choices and city performance. Over the past half century, combinations of natural market forces and federal, state and local government policies have altered resource prices within metropolitan areas so as to encourage suburban economic development and discourage central city economic development. In the main, for older industrialized cities natural market forces have been responsible for the diminished demand for city housing services and the increased costs of doing business in the city relative to the suburbs. At the same time, however, government policies have resulted in city resource users paying substantially more and suburban users paying substantially less than actual costs. These government policies did not "create" demand for decentralization; they simply allowed demand to be realized more rapidly than if full resource costs were being paid by the suburbs. It is possible that an extended low density distribution of human activities is the preferred spatial resource arrangement for urban people. The difficulty arises in determining true preferences in the absence of accurate resource use signals.

Although a full separation of the two influences is impossible, the following discussion individually examines natural market forces and government policies.

Market Forces

For older industrialized cities and their metropolitan areas, population has led the suburbanization process, followed closely by retailing and manufacturing, and then services and wholesaling.* The primary natural forces behind the decentralization of population in older industrialized cities have been changes in transportation technology (including the unit cost of transportation networks), rising personal income, and the in-migration of rural blacks. The lowering of commuting costs reduced the price and increased the effective supply of substitute suburban residential sites for city households. As to rising incomes, Coleman has stated: "(The) income elasticity of distance is high: as incomes increase, persons spend increasing fractions of their income in distancing themselves from others."** This distancing is partially, but not sufficiently, explained by the income elasticity of demand for land and physical housing,†

---

* Edwin S. Mills, *Studies in the Structure of the Urban Economy*, Baltimore, The Johns Hopkins Press, 1972, Chapters 2 and 3.

** James S. Coleman, "Can We Revitalize Our Cities?", *Challenge*, November-December 1977, p. 30.

† The current spatial income gradient in metropolitan areas has been attributed by the rent gradient school (Muth, Alonso, Beckmann and Mills) to income elastic demand and relatively income inelastic commuting expenses. According to the theory, as technology has lowered commuting costs to central cities, metropolitan rent bid gradients have flattened out. However, from cross-section data on several thousand San Francisco households, Wheaton found the income elasticities of land consumption and travel costs to be similar (± 0.25) and thus, the spatial bidding of different income groups for land to be almost identical (*American Economic Review*, September 1977). Wheaton concluded that: "The suburbanization of America's middle and upper classes is a response to housing market externalities and the fiscal incentives of municipal fragmentation."

both of which are more available and at lower prices in the suburbs. Other components of the housing bundle are important as well. Services may improve as households escape from the disamenities of city density such as congestion and crime. Deterioration of neighborhoods with entry of poor migrants who do not have sufficient income to devote to home maintenance or are tenant risks may create concern over the returns on a private housing investment.*

Overall, older industrialized cities offer a public sector residential service package that is higher in redistributive services, lower in public education quality, lower in personal and property safety, and higher in price than communities in the suburban ring. As indicated earlier, households considering alternative sites within metropolitan regions and households with rising incomes have high mobility, especially those with children of or near school age. Such a city public service package is unlikely to attract or retain these households.

One immediate consequence of population decentralization was the decentralization of retailing and consumer services. While commuters are expected to spend at least some portion of their consumption budget near their place of employment, the bulk of their consumption occurs close to home.** The further a household locates from the city and the more intervening suburban shopping opportunities, the less expenditure by that household is likely to occur in the city. Retail and consumer service activity losses were compounded by a general shift of higher income families, especially those in the child-rearing years, from the city to the suburban ring. For as income increases and age decreases, quantities of households' durable purchases increase and, all other things being equal, as family size increases, the total amount of households' retail and service purchase increases.†

The industrial infrastructure of New Jersey's major cities was in place by the 1920's.‡ The production technology inherent in city plants is increasingly obsolete by today's standards and normal capital depreciation has been compounded by rapid obsolescence. The impact of this dual decline is partially evidenced by the current stable or growing manufacturing sectors in mature cities which industrialized primarily after the 1920's.¶ Successful city manufacturing firms wishing to take advantage of new horizontal production techniques could find adequate space in the suburbs without incurring unreasonable transportation costs. Today, the manufacturing value-added per worker is much higher in the suburbs than in the central cities of older metropolitan areas, indicating more capital intensive production and advanced technology in the suburbs.§ For labor intensive firms, the comparative advantage offered by the industrialized city diminished with the decline in foreign and rural in-migration, the growth in unions and the decline in transportation costs from foreign and rural production sites to urban markets.

City manufacturing firm contraction and failure, concentrated among smaller firms, is partly a consequence of the out-migration of primary firms for which smaller firms were intermediate suppliers, and partly attributable to the

---

* There is no conclusive evidence distinguishing racial from economic (income) discrimination as a motivation for white flight. Bradford and Kelejian, for example, determined that for a middle class family of given income, the family's probability of residing in the suburbs increased with the percentage of poor (but not black) families in the previous decade and decreased with the fiscal surplus generated for middle class families by the city budget (*Journal of Political Economy*, May 1973).

** Buyers will continue to search for prices until the expected savings from the purchase equals the cost of visiting one more dealer, then will take the lowest price encountered. Buyers will search less for commodities which take less of their income. Since the bulk of household retail and service purchases are for individually low priced items (e.g., food), the bulk of consumption occurs close to home where travel and search costs are minimized.

† G. Katona, L. Mandell, and J. Schmiedeskamp, *1970 Survey of Consumer Finances*, Survey Research Center, Institute for Social Research, Ann Arbor: University of Michigan, 1971.

‡ For a brief history of the development of New Jersey cities, see James Hughes, "New Jersey Demographics: 1790-1985", #DF-GT-I, Division of th Future, Fairleigh Dickinson University, Madison, New Jersey, 1977.

¶ R.D. Norton, "City Life-Cycles and American Urban Policy", unpublished dissertation, Princeton University, Princeton, New Jersey 1977.

§ Thomas M. Stanback, Jr., and Richard V. Knight, *Suburbanization and the City*, Montclair, New Jersey: Allannard, Osmun and Co., Publishers; Inc. 1976.

old industrial infrastructure. Marginal plants with more dated capital stock and production processes are less efficient and likely to be the first down and last up during the course of the business cycle. For example, in New York City during the double recession period of 1970-75, the annual rate of manufacturing job loss was 7.2%, about three and one-half times the rate during the 1960's and eight times the 1950-60 rate. Older, used, low-cost capital may provide a significant advantage, however, for in conjunction with the density of specialized business services, the city may be a spawning ground for innovative, fast growth and minimally financed manufacturing firms.

Business services, unlike manufacturing, are thriving in the nation and in the cities and, contrary to consumer services, entail a sizable regional export component. While a technological revolution may have dramatically altered interstate business communications, the face-to-face contact and market density benefits that are found in cities are still a valuable asset to the specialized business service industry.

Despite the trend in natural market forces, there are a number of market forces operating in favor of the cities. Among those natural causes are: a) an acceleration in the national rate of household formation with the majority of the fastest growing household sectors, such as young singles, single parent families and unrelated individuals living together, exhibiting an urban preference; b) an increase in the female work force with a preference for short commuter trips and service sector jobs; c) rising energy costs; and d) the very decentralization process itself which causes disequilibria in urban markets (e.g., a decline in low skill jobs relative to the supply of low skill labor), often forcing prices down (e.g., low skill labor wage demands), and bringing about a new equilibrium.

The fundamental strength of cities to be the most productive centers for specialized housing services, business services, and manufacturing activities and for specialized labor remains. This strength derives primarily from what Alonso calls the "massing of reserves" or the advantages of sheer size. Care must be taken however, to distinguish between density and size. Economies of agglomeration, market thresholds (minimum survival sales volumes) and competition are associated with density (proximity) and it is the densities, not the absolute sizes of cities, which distinguish them from their metropolitan suburbs. Local income and employment multipliers arising from activities serving markets outside a community for instance, are directly related to population density while, at the same time, inversely related to population size.* Density translates into larger and more diverse product and supply markets.

Threshold markets make a wide range of cultural activities (e.g., orchestras, ballet companies, museums) and specialized consumer services (e.g., ethnic restaurants, cutlery stores) readily available to city residents. Specialized markets and production activities attract specialized labor. For example, the more specialized a nurse becomes, the more likely it is that only a full-service hospital offering specialized medical services will be a suitable place for her employment. A large and diverse labor force increased the likelihood of firms obtaining a wide range of labor skills in a relatively short period of time. This is especially important to industries where flexibility has high value and small establishments dominate (e.g., toys, sporting goods, jewelry). As of 1972 nearly seven out of every ten small U.S. firms were located in cities compared to less than one out of every two large firms. Such firms are characterized by instability, external contracting of services (e.g., trucking, advertising) and intermediate production processes. While many of these young firms will mature and eventually migrate to the suburbs, the city is essential in providing a lower risk and lower cost environment for their initial development. Moreover, while closed circuit television may be suitable for Board of Directors meetings and a computer terminal for bank account transfers, the rich industrial and busi-

* George S. Tolley, "The Economic Costs of Spatial Alternatives in Growth", University of Chicago, Urban Economics Report, No. 106, p. 8.

ness mix of the city reduces the costs of information flows between a variety of firms which otherwise maintain no regular lines of communication.

Density has also been found to be inversely related to unit costs in the delivery of many local public services (e.g., highways, sanitation, parks and recreation), although unit costs are directly related to population size. While many local public services exhibit uniform or even rising unit costs past some consumer threshold, a denser city would be expected to have lower aggregate per family service costs than a more sparsely populated city or suburb.*

Overall, the private costs of sprawl development far exceed the costs of the denser city spatial arrangement. There are 0.06 clothes washers and dryers for every apartment household in the New York metropolitan area compared to 0.969 and 0.51 washers and dryers respectively for suburban families. Similar comparisons can be made for lawn and gardening supplies, garbage cans, water heaters, furnaces, building materials, gasoline purchases and automobiles.** The willingness of people to pay for the higher cost suburban living arrangement is not at issue. But if government policies are not neutral with respect to resource prices and suburban style spatial arrangements are subsidized, the movement to the suburbs will continue to occur beyond what is warranted by the true cost differentials.

Government

Prices simultaneously reflect consumers' valuations of goods and services and suppliers' costs of production. A neutral government act (e.g., an expenditure, regulation or tax) is one which has no effect on relative prices. In many instances, government acts such as regulation of spillovers (e.g., pollution) or income transfers, are not intended to be neutral. There are no overwhelming economic justifications, however, for government acts to be anything but neutral toward the prices of similar goods and services in suburbs and cities. The critical long term urban revitalization issue is whether government policies will continue to erode the comparative cost advantage of the cities, thereby increasing suburban locational incentives.

The following is a listing of federal and non-federal government actions which have explicitly or implicitly altered suburban prices relative to the cities. Where possible, non-federal policies are New Jersey specific. Existing and proposed near-term government actions will be considered in Section III.

Federal Actions

PERSONAL INCOME TAX: The personal income deduction for home mortgage interest constitutes the largest single subsidy afforded by the Federal government. Unequal federal tax treatment of housing expenditures by owner-occupants and tenants lowers the effective price of home ownership relative to renting, increases the demand for owner units and increases the investment flow into the development of owner-occupied units. On the supply side, in New Jersey and the nation the majority of city housing units are rental while the majority of suburban units are owned. In addition the supply of residential development sites is greater in the suburbs than in the cities.

Besides their mortgage interest deduction homeowners (and landlords) can deduct their property taxes from their gross personal income. Although tenants pay property taxes indirectly as a portion of their rent, they are not allowed an income deduction. This further raises the effective price of renting relative to owning and effective property tax rates in the cities relative to the suburbs.

---

* John L. Gardner, "City Size and Municipal Service Costs", University of Chicago, Urban Economics Report, No. 77, June 1972, p. 9; and Werner Z. Hirsch, *The Economics of State and Local Government*, New York: McGraw-Hill Co., 1970, pp. 176-184.

** David Groelinger, "Domestic Capital Equipment" in *The Suburban Economic Network, Economic Activity, Resource Use and the Great Sprawl*, ed. John E. Ullmann, Praeger Publishers, 1977, pp. 146-176.

WELFARE: Income maintenance is a national and not merely a state concern. The state and local governments in New Jersey are each responsible for financing 25% of the payments to welfare residents within their jurisdictions. The concentration of metropolitan welfare recipients in cities significantly raises city taxes and discourages economic development.

WATER AND SEWER INFRASTRUCTURE: Federal grants are available for construction of new water and sewer infrastructure but not to offset the costs of operation and maintenance-renovation of existing facilities. Lowering the costs of new infrastructure encourages development in suburban and rural areas. Many city water and sewer systems were constructed when no federal funds were available. Moreover, lack of capital for maintenance and renovation has resulted in physical problems, like line linkage and the pollution of aquifers, which significantly raise operating costs. For the past two years New Jersey has redirected its state sewer construction program toward areas with high population density.

HIGHWAYS: Construction of interstate highways and beltways has generally lowered the price of access to suburban and rural sites while simultaneously reducing the value of in-city proximity. Federal revenues for financing the interstate and beltway system are obtained from an ad valorem tax on gasoline. This tax does not differentiate between users and non-users of the interstate system nor does it necessarily relate to the intensity of use. Moreover, the tax does not differentiate between system costs in high vehicle volume areas such as cities and low vehicle volume rural areas. Like the electrical industry, highways have a declining cost schedule until peak loads are approached. If prices were equated to costs, highway users in high volume areas would face a lower price per unit of highway service than users in low volume areas.

Low city prices should be offset by an additional levy for drivers who create peak hour congestion burdens in the city. These drivers, most notably suburban commuters, induce multi-lane roads to be built to even greater size, inflicting an extra margin of construction and social costs (e.g., the splitting apart of inner city neighborhoods). The tremendous sums necessary for debt servicing and maintaining the apparently "free" interstate road system fall disproportionately upon city residents given their contribution to the peak hour congestion problem.

DEPRECIATION ALLOWANCES: Depreciation allowances are tax deductions for expected capital consumption over the useful life of real property. Federal accelerated depreciation regulations (and State acceptance of the same regulations in corporate income tax calculations) lower the cost of new physical capital relative to the purchase and/or renovation of older plants, rental properties or used equipment. Under the 1969 Tax Reform Act all used real properties are limited to the straight line method of depreciation (old rental properties with a minimum useful life of at least twenty years may utilize 125 percent declining balance). New construction, on the other hand, can use anywhere from 150 to 200 percent declining balance methods, sum-of-the-years'-digit method, or the component method where each physical element (such as plumbing, heating, walls and electrical systems) may be depreciated over a separate useful life.

While taxes are not avoided, the accelerated depreciation regulations allow owners of new capital to significantly reduce the effective tax rate on an investment during its early years. Money is thus available for alternative investments (or consumption) and with inflation when the delayed tax bill eventually falls due the real tax rate has been reduced. These regulations reduce the city comparative advantage in used capital, lower the return on renovation relative to new construction, and enhance the suburban comparative advantage in open space (available sites for new construction).

FEDERAL HOME ADMINISTRATION AND VETERANS ADMINISTRATION: FHA and VA activity have lowered the down payment and interest requirements on home purchases though risk sharing with private lenders. This has encouraged development and growth in the suburbs where owner-occupied unit opportunities dominate.

REGULATION (TRANSPORTATION): Federal regulation has been labeled America's leading growth industry. It is estimated that in 1979 federal rules and regulations will cost $102.7 billion—$4.8 billion in administrative costs of the agencies and $97.9 billion in compliance costs by the private sector. Almost three quarters of the nation's small firms are located in cities and these regulations are a particular burden to small firms which have limited manpower capacity for compliance activities. Small business firms spend approximately $15 billion annually on completing and filing federal reports and as many as 140,000 small firms are fined each year for violating federal rules and regulations. Aside from inflation and taxes the nation's small firms cite regulation and red tape as their single greatest business problem.*

Federal regulation of transportation activity has become an American tradition and the impact on cities has been substantial. The monopoly enjoyed by railroads in the nineteenth century led to many instances of rate exploitation and to the formation of the Interstate Commerce Commission. Although the railroad monopoly has disappeared with the emergence of truck and air substitutes, the regulatory controls remain. Many cities owe their vitality in history to the railroad and the transshipment activities surrounding juncture points on rail lines. The demise of the rails, in part because of the regulatory environment (crew size, fee setting, line abandonment rules), has weakened rails versus the truck and automobile, lowering the commercial advantage of city-oriented rail transport.** Federal ceilings on petroleum product prices have also weakened the railroads and subsidized suburban sprawl by lowering automobile and trucking costs.

Federal trucking regulations have speeded the relative decline of common carriers who formerly served many small firms in the city through frequent but low volume shipments. These regulations also subsidized lower populated areas, supposedly to assure them service even when non-economical to the trucker. This encourages firms to locate in suburban and exurban areas by lowering transportation prices. Moreover, high costs of cross haul trucking imposed by regulation encourage consumer service and retail firms to follow population movement in order to avoid intraregional shipping costs.† As with trucking regulations, airline regulations force provision of subsidized service to lower population areas, undermining the advantage of high volume urban airports. Prices in both the trucking and airline industries are kept artificially high by regulations which protect existing firms from competition by new entrants.

UNEMPLOYMENT INSURANCE: Unemployment assistance like welfare, is a national and not a regional concern. On the average, New Jersey employers pay more than twice as much as the rest of the U.S. and more than three times as much as employers in the Southeast. This generally discourages industrial growth in the State and encourages development of capital intensive firms which favor large suburban sites.

POLLUTION: The costs of pollution abatement are not inconsequential to business firms. In 1976 pollution abatement expenditures in the U.S. totaled $32.8 billion with business spending $19.9 billion, consumers $4.4 billion and gov-

---

* "Government Regulation America's Number One Growth Industry", Joint Economic Committee Notes, Congress of the United States, Vol. IV, ±11, May 16, 1978.

** Francis Tannian and John Stapleford, "Metropolitan Stability and Economic Interdependencies", presented at the National Meeting of the American Public Administration Society, March 1978, p. 20.

† R.J. Vaughan, *The Impact of Federal Policies on Urban Economic Activity*, Washington, D.C.: The Rand Corporation, 1976, p. xii, Table S-1.

ernment $8.5 billion.* Close proximity and density of business and residential activities in cities may make even low additional increments of pollution unacceptable. Consequently, the costs to firms for compliance to federal and state environmental standards are generally higher in cities than in less dense areas. If federal and state environmental standards are to be the same for city and non-city areas, economic development in older industrialized cities may require: (a) government pollution abatement subsidies; and (b) a shift from regulation-enforcement to a series of charges (e.g., effluent fees and material disposal taxes) in order to obtain a more even distribution of pollution costs among city activities and thereby reduce costs to new firms.

Non-Federal Actions

LAND USE: Restrictive suburban zoning and land use regulations discourage the construction of low cost housing outside of the cities. The resulting residential segregation among income groups creates among other things, concentration of low income residents with high per capita local public service needs in the city and a possible spatial mismatch between low skill city labor and suburban manufacturing employment growth.

PUBLIC HOUSING AND HOUSING SUBSIDIES: While mainly federally financed, public housing and housing subsidy programs have been administered at the state and local levels. Over 80 percent of all metropolitan area public housing in the nation has been located in cities, and the suburban share of public housing has been predominantly for the elderly. The spatial distribution of housing subsidies has shown a similar city bias. (Over the past seven years 70 percent of the New Jersey housing finance agency expenditures on new subsidized housing has gone into urban areas.) This encourages the concentration of low income households in the cities, increases the per capita city tax load, and encourages out-migration of middle and upper income city residents.

UTILITIES: The delivery of water, sewer, electric and telephone services to consumers requires extensive infrastructure systems. Although capital and operating unit costs for utilities rise with delivery distance and rise faster with less dense customer groupings, user rates are normally not differentiated by space. Despite the installation of extra pumping stations, miles of pipeline, line linkage losses and a density of perhaps two customers per acre, a suburban home twenty miles from a treatment plant pays the same average price for water as an inner city apartment next to a treatment plant where densities may average 200 customers per acre. Despite clear unit delivery cost and per customer infrastructure cost differentials among alternate land uses (e.g., single family homes on half acre lots vs. high rise apartments), no distinction is made through utility prices. As a result, city customers pay more than it costs to serve them, suburban consumption of utilities is subsidized, and inefficient land development is encouraged.

REDLINING: Redlining is generally considered to be the refusal by lending institutions or insurance companies to extend or renew credit or coverage on real property solely because of the property's location. Redlining in residential mortgage lending occurs most frequently in cities where the denial of home investment funds accelerates deterioration of declining neighborhoods. A recently enacted New Jersey law prohibits home mortgage redlining and requires annual disclosure by depository institutions on the geographical distribution of their mortgage loans. The law does not force lending institutions to approve mortgages in declining city neighborhoods nor does it require institutions to ignore the impact of neighborhood conditions upon the economic life of a property when determining credit terms. The law does require consistency in appraisal techniques and complete credit review regardless of a property's location. While the law does little to stimulate demand for city housing, it does assure that creditworthy individuals who wish to purchase low priced housing in deteriorated city neighborhoods can

* Frank W. Segel and Frederick J. Dreiling, "Pollution Abatement and Control Expenditures, 1972-76", *Survey of Current Business* U.S. Dept. of Commerce, Wash. D.C., Vol. 58, #2, February, 1978, pp. 12-16.

obtain mortgages on some terms. State or Federal protection against redlining in business lending and insurance coverage is not available.

USURY LAWS: Young, moderate income, first time home owners constitute a vital city residential demand group. The state home mortgage rate ceiling reduces the flow of mortgage credit to these higher risk households and/or renders down-payment requirements prohibitive.

The State interest rate ceiling on loans of less than $50 thousand to individuals restricts the already limited capital supply to small entrepreneurs. Cities with their large concentrations of small entrepreneurs are especially impacted by this ceiling. The impact of either ceiling is most critical in times of volatile or high interest rates (such as currently being experienced).

WELFARE: The negative impacts on New Jersey's cities from the local government welfare financing requirement were discussed under the Federal Actions section. Ideally, income maintenance programs should be paid for from the federal tax base. In the absence of this reform the State could at a minimum eliminate the local financing requirement and spread welfare program costs more equitably among all non-welfare state residents. As of 1976 twenty-nine states required no local government welfare (AFDC and Medicaid) contribution and half the remaining states had a local requirement of less than five percent.*

PROPERTY TAX: A substantial proportion of low-income residents and significant daily net in-commutation are the primary reasons why per capita expenditures on local public services are higher in the cities than in the suburbs. The property tax is the major own-source revenue mechanism for cities. The property tax is an ad valorem tax on real property. It is meant to be a tax on property income and a payment for those public services to property which can not be user charged. The property tax should not function as a general revenue mechanism. It is not necessarily related to the ability to pay and is therefore a poor instrument to be utilized by cities in the financing of overtly income-redistributive public expenditures (e.g., welfare, health, public housing). Moreover, when levied on business property instead of income earned in the city, the tax does not distinguish between suburban commuters and city resident workers, and thus city residents may subsidize city services to suburban commuters. Concurrently, the property tax, together with large lot-single family home land use requirements, is used for fiscal zoning in the suburbs. This assures a continued concentration in the cities of low-income persons with high per capita local public service needs.

The enactment in New Jersey of a statewide income tax was supposed to redress these inequalities. Initial studies indicate that not much has changed through the redistribution mechanism of the income tax. For example, in 1976 the difference between the average homestead rebate in urban aid communities (cities) and non-urban aid communities was just eight dollars per home owner despite a wide range in average property tax rates between the two groups (5.18% versus 2.65% respectively). Further, the State does not have enabling legislation allowing major cities to institute alternatives to the property tax.

Tax exempt properties are another reason why city property tax bills exceed those in the suburbs. Currently, the State makes payments in lieu of taxes to municipalities for services to State property. The core city is crowded with other tax exempt activities such as regional post offices, auditoriums, museums, hospitals, religious headquarters, and federal buildings. Payments to at least cover the costs of direct municipal services consumed by employees are not made by these organizations nor is compensation offered by the State which mandates the majority of the exemptions.

---

* Robert D. Reischauer, "The Federal Government's Role in Relieving Cities of the Fiscal Burdens of Concentrations of Low-Income Persons", *National Tax Journal*, Vol. XXIX, #3, Sept. 1976, p. 300.

Although annual property assessment is required by State law, enforcement and assessment-to-current market-value ratios are anything but uniform. With discontinuous reassessment, areas with high levels of new construction (suburbs) will have a more elastic property tax base than areas with relatively little construction (cities). In areas where market values are declining (many inner city neighborhoods) discontinuous reassessment will cause effective tax rates to exceed millage rates while the opposite occurs in areas where market values are increasing (most suburban neighborhoods).

Finally, the local practice of a low tax on land encourages speculation while high tax on structures discourage renovation, maintenance, and new construction. The effect is especially severe in cities where location rents and real property values are highest per unit of space.

MINIMUM WAGE: Unskilled and unemployed persons are concentrated in New Jersey's cities. The State legislature has traditionally set the State minimum wage higher than the national wage. This generally reduces the employment of unskilled labor in cities, encourages employment of more qualified secondary and temporary workers from high income suburban families, and increases the city unemployment rate. It also encourages firms to substitute capital for labor which implies a larger production site and a suburban location where such sites are readily available.

RENT CONTROL: New Jersey permits institution of rent controls in municipalities. Rent control limits the returns on housing investments by landlords and encourages landlords to allow maintenance to decline, large units to be subdivided, unit density rates to rise, and, after a stage of property tax delinquency may result in abandonment.*

MASS TRANSIT: Mass transit routes are primarily arranged to bring commuters into cities rather than city workers into the suburbs, thus encouraging suburban residential development.

CRIME AND COURTS: Crime rates are positively correlated to population density and crime rates in cities are as much as ten times greater than suburban crime rates. In 1975 the crime rate per 100,000 population in New Jersey's eight major cities was 91 percent higher than the State rate. High crime rates in cities not only encourage suburbanization of firms and families for reasons of personal safety. High crime rates produce higher insurance rates on real property and automobiles, increased expenditures on security measures such as fencing, bars on windows, and private watchmen, and drastic reductions in the volume of nighttime cultural, social, and business activities.

During the past twenty years social policies related to crime have been designed to protect the rights of the accused and to protect the interests of the offender. The product has been a dramatic decline in the overall chance for imprisonment for someone who commits a crime.** Suburbanites enjoy the good will benefits of egalitarian treatment of habitual criminals and simultaneously demand safety while working, shopping and recreating in the cities. The costs of crime prevention, however, fall disproportionately on the cities.

The costs for the judicial system fall disproportionately upon the cities as well. In New Jersey each county and municipality must support the local courts through own-source revenues. Over ninety percent of all judicial cases are settled in local courts with the bulk of the caseload going to courts in urban counties and larger cities. Thus residents of urban counties and larger cities bear the majority of the costs for the State's local judicial functions.

EDUCATION: Court opinion has denied the New Jersey income tax exemption for non-public education expenditures. This disfavors urban areas where the majority of such schools

---

* O.A. Davis and A.B. Whinston, "The Economics of Urban Renewal", *Law and Contemporary Problems*, Volume 26, #1, 1961.
** James S. Coleman, "Can We Revitalize Our Cities?", *op. cit.*, p. 30.

are located. Moreover, the school finance reform package in 1976 has not significantly redistributed school aid funds (State aid-tax liability) to urban aid municipalities. On the other hand, State equalizing formulas for education operating funds favor the cities by as much as two to one over the suburbs and State credit backing of local school debt issues favor the high risk cities.

SEAPORTS, AIRPORTS: Seaports and airports in New Jersey are located primarily in cities and operated mainly by regulated authorities. Commodity shipment advantages in terms of profits to firms and wages to workers spill over to the entire region served. Spillover costs such as noise, traffic and pollution are localized in the cities. In lieu of tax payments by the facility authorities do not fully compensate cities for either the spillover costs nor direct city services consumed by the transshipment operations.

LOCAL PUBLIC DEBT: A substantial portion of the present city debt is due to the own-source financing of public infrastructure undertaken prior to the 1960's. Most suburban communities, on the other hand, received federal and state assistance for infrastructure construction. State guarantee for local bonds in New Jersey will lower future capital debt service costs to municipalities and, where bond refinancing is possible, may somewhat offset the past city-suburb debt differential.

New Jersey has also instituted a municipal debt limitation ceiling. The state limit on local government debt is based on the market value of real property. Slow growth in the market value of real property in municipalities puts a tight limit on further debt financing, constructing capital development and improvements. However, exemptions may be granted with State approval and subsequent overview.

Certainly, there is room for disagreement on the particulars of the impacts upon the cities of many of the federal, state, and local government actions. Nevertheless, it is difficult to argue that the sum effect of all the actions is neutral toward metropolitan spatial development. In total, these government policies have increased the prices of resources in the cities relative to the suburbs and have thus offset much of the efficiency advantage of the city. The primary *long-term* State policy toward city revitalization should be a phased alteration of existing programs, regulations and taxes to make resource prices coincide with actual costs within metropolitan regions.

Section III—Near Term Policies

The maintenance of relative stability and equality of opportunity within New Jersey's metropolitan areas is essential to the full realization of State economic potential. In the absence of stability, resources are underutilized, markets are in disequilibrium, and prices fluctuate precipitously. Inequities in the distribution of opportunity arbitrarily inhibit human capital development, individual income growth and resource mobility. As indicated in the previous section, federal, state, and local policies have contributed measurably to metropolitan instability by weakening the relative attractiveness of city communities and increasing the attractiveness of suburban communities.

Continuation of these or similar government policies will further weaken central cities, although, in the last thirty years most of the damages may have already been inflicted. What might also happen, however, is that the suburban communities closest to the cities will tend to suffer abandonment, disinvestment and deterioration as exurban locations assume a glow of subsidized relative attractiveness.* The State economy will suffer accordingly.

On the other hand, a phased reversal of these policies will over the long-term, measurably discourage further decentralization and will facilitate the limited natural forces driving cities and metropolitan areas toward equilibrium. The essential question is not what form the city will eventually assume; rather how long will it take

* For a cost, price and rent-bid gradient explanation as to the price-signal causes of metropolitan area instability, see: Francis Tannian and John Stapleford, "Metropolitan Stability . . ." *op. cit.* p. 20.

to reach a new equilibrium? During the long-term adjustment period, there will be many near-term disequilibria. These disequilibria will frequently produce high and unacceptable efficiency and human welfare losses. State urban revitalization policy should seek to minimize these losses given government's scarce resources and do so in a manner which continues to rely on individual economic choice.

High unemployment among black city youths is one example of a near-term disequilibrium. This labor market problem may result from any number of factors: slow growth in low skill jobs in the city, a structural shift toward white collar service equipment, competition in city labor markets from suburban commuters and in suburban labor markets from secondary and tertiary wage earners, poor educational and vocational training, and lack of information on and transportation to suburban jobs. Clearly, society's underutilization of this labor resource is inefficient and the income, training, and career development losses incurred by the unemployed youth are substantial.

Government programs and policies can provide these youths with increased opportunities for upgrading their labor skills and with greater access to employment opportunities. Given the near-term policy objectives just stated, the most effective program in terms of benefits to unemployed youth and compatibility to market forces, may be employment subsidies to firms. It is not, however, within the scope of this paper to evaluate specific policy proposals, but rather to identify fruitful areas for policy action.

While long-term alignment of effective prices and actual resource costs will make city locations more attractive, in the near-term prices will adjust slowly and city residential and business capital may remain underutilized. Near-term State policies for revitalization of the middle and upper income portions of the city residential sector should focus upon personal and property safety and public education quality. Information programs to combat unwarranted fears, improved street lighting, public foot patrols and more consistent treatment of habitual criminal offenders may be specific policy proposals with potential. Among low income households, unemployment and quality public education are critical revitalization issues.* To offset commuter impacts firms receiving public financial assistance could be required to hire local residents and unemployment insurance funds could be used to subsidize the labor costs. For all households, private lenders might be encouraged to pool their risks in urban housing investments. A coinsurance program might be instituted in which the State would assume some share of the risk.

To increase utilization of city manufacturing capital in the near-term, allocative priority for State resources should be given to facilitating the retention and expansion of existing city firms. Specific programs may include (1) the provision of space for expansion (e.g., land grants and urban industrial parks with equal access to financing for small and large firms); (2) a city ombudsman for single stop information on everything from available space, to interpretations on environmental regulations and eligibility for tax incentives, to inventories of business services; and (3) financial assistance mostly directed to smaller firms through State or federal funds or credit. Adequate venture capital for existing or new small firms may be achieved merely through improved marketing of current State and federal programs (including the existing small business investment companies and the proposed National Development Bank) and government assistance in the matching of private lenders and borrowers. Taxes and special tax incentives should be examined to determine their impact on firm investment behavior. Tax incentives, such as Fox-Lance, which mandate existing city firms and residents to subsidize new businesses should either be avoided or the subsidy costs shifted to the State.

Over the long-term, city retailing and consumer services should revive with the residential

* Francis Tannian and John E. Stapleford, "Spatial Aspects of Public Policy Demands", *Northeast Regional Science Journal*, Volume VII, 1977.

sector. Meanwhile, the shortage of retail and consumer services in many city neighborhoods creates spatial monopolies for the remaining firms, the consequence often being monopoly pricing. The provision of financial assistance to retail and consumer service firms is a high risk activity in which even the federal government is cautious not to be too deeply committed. As with small manufacturers, state and city governments can provide a valuable information and clearinghouse service. State government could, for instance, develop new information data sources for the purpose of ferreting out those neighborhoods and business specialities with high growth potential and directing prospective entrepreneurs into such areas. Delaware, which has initiated such a system, used four criteria for measuring firm-industry growth in various jurisdictions: (1) amount of growth experience, (2) degree of stability enjoyed, (3) rate of firm entries and exits, and (4) range of size of firms within a business category (a measure of capital start-up needs).* Larger retailers and shopping centers could be assisted in obtaining sites through government land parceling within neighborhoods, even to the utilization of eminent domain powers where absolutely necessary.

For business services, and for all city business activities, the best near-term stimulus for increasing utilization of city resources may be a pooling of risk through public commitment by leading city firms and government to the long-term city future. Coalitions, whether in the form of local development corporations or loose associations, will be effective only when those individual member commitments are made. While such commitments cannot guarantee a particular future for the city, they substantially reduce the uncertainty over the general long run economic health of the city.

The most obvious State commitment would be to rearrange the application of its capital and human resources toward urban areas whenever possible. The construction of mausoleum-like State office complexes creates spatial vacuums during non-working hours. Future capital development by the State should seek to stimulate a mix of activities on adjacent sites and should be utilized as a means of leveraging private investment in cities. Commuting removes most State salaries to suburban areas. State provision for facilities for cafeterias and other services at prices below market value may reduce the remaining local spending impact of State employees working in cities. City governments can decrease leakage of employee salaries by giving preference among qualified candidates to city residents.

It should be recognized that generally these near-term State policy options are redistributive, among both income groups and spatial areas. Excessive application of public resources to such programs may penalize non-recipients to the extent that the well-being of all State citizens is reduced. To avoid this, the State may wish to implement near-term programs through rearrangement or more efficient utilization of existing resources. State involvement should be limited to those urban programs where State assistance has the potential to be most effective. In the immediate future, State involvement may also have to be concentrated upon only the most needy cities. Moreover, to assure maximum effect from the limited State programs, cities should be assisted in developing a comprehensive strategy for urban revitalization where the cities and the private sector complement the State programs and each other. A good initial step in the development of a comprehensive strategy might be detailed studies of the economies of various cities.

Finally, a word must be said for those who wish to create suburban comparative advantages (e.g., industrial sites surrounded by large green open spaces) in the cities; in essence, bringing the suburbs into the city. Such a policy works against rather than in concert with natural city advantages. Specialization is the city's leading

* D.P. Dotterweich, J.H. Sills and F.X. Tannian, *Economic Growth and Minority Entrepreneurship*, Economic Development Paper No. 1, University of Delaware, Newark, Delaware, June 1977.

resource advantage.* Policy makers and analysts must accept that specialization, variation, and complexity are inexorable elements of a city revitalization strategy. The complications of having to vary resource prices over time and place, address the daily management needs of small firms and stay attuned to the behavioral contexts of people's commercial and private lives in unavoidable.

Summary

Changes in the spatial distribution of economic activity are the result of rational decisions by households and firms. While market forces have spurred the flight from New Jersey's cities, government has not been neutral. By directly and indirectly increasing the prices of city resources relative to the suburbs, government has discouraged city population, investment, employment and income growth. A continuation by government of these decentralization price incentives will impose significant public costs on New Jersey's citizens. The relocation of households and firms into less populated suburban communities, for example, often requires accommodating public investments in water, sewer, highway, educational and recreational facilities. Meanwhile urban facilities may be underutilized. Spatial segregation of income groups and mismatches between jobs and labor increase public expenditures on costly social programs. These expenditures will grow even faster if continued decentralization spreads current city problems into the suburban communities closest to the city.

State long-term policy toward urban revitalization should be a phased alteration of existing programs, regulations and taxes to make resource prices coincide with actual costs within metropolitan regions. The first step in the development of the long-term policy would be a careful examination of the intent and real impact of existing state functions. A preliminary examination is put forward in section II of this chapter and specific state policy proposals can be found in Chapter I. The issues require further serious analysis. There is need for a research commitment aimed at delineating in detail the influence of the State upon the spatial distribution of economic activity.

Long-term state urban policies have a broad-based impact and, if instituted, will slowly alter behaviors within metropolitan regions over a period of five to ten years. During the long-term adjustment period the State should implement policies which seek to minimize near term efficiency and welfare losses (recognizing the limitation of scarce state government resources), and do so in a manner which continues to rely on voluntary individual actions in the private sector. In section III of this chapter general areas for near term policy action are identified and specific near term policy proposals are presented in Chapter I. With limited resources these State near term programs may realize a maximum effect only if concentrated upon the most needy individuals and cities.

Effective near term State programs will help to relieve many of the severe symptoms of urban deterioration. The economic revitalization of New Jersey's cities will depend, however, upon legislative and executive action to alter those state policies which have been long-run determinants of urban deterioration.

* Francis Tannian and John Stapleford, "Metropolitan Stability..." *op. cit.* p. 31.

V

URBAN REVITALIZATION AND FISCAL PROBLEMS*

The prescription for the revitalization of the States urban areas discussed in this *Annual Report* is based on the efficient and equitable allocation of scarce resources. Economic principles argue that the private market system will lead to efficient resource use under certain conditions. Therefore, many of the economic policy recommendations being developed to improve the urban economy of New Jersey focus on correcting market distortions and disruptions.

According to the same principles, there is only a limited role for government to play in supplying certain public or "social" goods and services which cannot be efficiently produced and allocated via the private market system. Typical public goods and services would include national defense, public safety, education, interstate highways, etc. In addition, public policy is also invoked to regulate, correct, and supplement private market activities.

Admittedly most of the public goods supply functions of government are best served at the federal level, especially when the benefits of these goods are nationwide or regional. However, when the benefits of some public goods are geographically limited to the State or city, it follows that lower levels of government should provide these goods and their costs allocated within the benefit region. In reality the fiscal condition of urban government is such that it may not be able to supply necessary services or that cities may be using scarce fiscal resources for public goods whose benefits spill over to neighboring jurisdictions without receiving compensating revenues from these areas.

At the center of the problem is the deteriorated economy of the inner city. In many instances, city governments are not supplementing private enterprise, but are in fact replacing it. Through its power of regulation, land use control and zoning, cities can influence the location and size of business firms. Urban government is usually one of the largest, if not the largest, employer within city limits; and cities have become major owners of real property either through condemnation, direct purchase, or through property tax default.

The objective of this paper is to advance the current role of urban government in a market economy and suggest a realignment in the use of public fiscal resources to revitalize the city economy. By reviewing the revenue and spending patterns of New Jersey's six largest cities** and evaluating them in terms of benefits re-

* Prepared by George R. Nagle, Office of Economic Policy.

** The "Big Six" cities, with populations more than 100,000 persons are: Newark, Jersey City, Paterson, Elizabeth, Trenton, and Camden.

ceived by the city, it was possible to identify areas in which cities were spending substantial sums. At the same time for some services it was unclear as to who was receiving the benefits. In those instances, it is recommended that a higher level of government assume fiscal responsibility. A suggested change in the mix of urban public goods could result in $63 million of savings which could be used to finance local tax relief and city economic development efforts.

This study reviews broad categories of city budgets and recommends several fiscal changes. Overall, this review was complicated by the quality and availability of local fiscal data, especially data pertaining to the receipt and spending of Federal grants-in-aid. Without such information, it is difficult to compare the relative strength of one city versus another, or versus a region, or the State as a whole. One recommendation for establishing urban development plans suggests improved standards for evaluating the relative economic performance of city government.

Financing Urban Government

Despite a widespread reputation as being an urban state, New Jersey is not dominated by a single large metropolitan center, but rather the State contains many relatively small urban places. In order to simplify the analysis only cities with populations greater than 100 thousand are considered. The so-called "Big Six" cities house only about 15 percent of the State's population, but their economic profiles approximate those of other urban places.

In 1969 the big six cities compared to the overall State average for all municipalities raised somewhat higher per capita revenues, $311 to $305, and supplied somewhat more public services as indicated by per capita expenditures $336 to $313 (Table 5.1). In order to finance the spending levels the six cities charged a property tax rate that was 164% above the statewide average ($5.77 vs. $3.51).

However by 1976, the latest year for which data are available, the relative fiscal strength of the cities slipped with revenues rising to $537 as compared to $602 statewide and city expenditures trailed other municipalities $579 to $606 per capita.

An important issue that underlies these revenue figures is the fiscal effort that is required to generate tax revenues. For example, all municipalities had an average equalized property tax rate of $4.34 in 1976, but at the same time the six cities' tax was $5.76—one-third higher than the State average.* Thus, if the cities were to raise per capita revenues equal to the state average ($602), the consolidated big six property tax would have to rise to $6.13; further widening the tax differential between cities and suburbs. Moreover, the persistence of very large tax differentials can be cited as contributing to the outmigration of people, businesses, and capital from urban areas.

TABLE 5.1
FISCAL SUMMARY PROFILE: BIG SIX CITIES

	1969		1976	
	Big Six	All N.J.	Big Six	All N.J.
Per Capita Revenues	$311	$305	$537	$602
Per Capita Expenditures ..	$336	$313	$579	$606
Per Capita Tax Base	$3,729	$6,669	$4,930	$12,931
Tax Rate (per $100 of equalized value)	$5.77	$3.51	$5.78	$4.34

SOURCE: *Annual Report of the Division of Local Government Finance,* New Jersey Department of Community Affairs, Annual.

* NOTE: That a large share of the local property tax is earmarked for local schools, one public service we have chosen not to include in the analysis of city finance. See Chapter VI for a separate review of local school finance.

The revenue raising capability of New Jersey's cities has eroded since 1969. Indeed the equalized tax base per person in the six large cities grew just 27% ($3,729 to $4,930) while tax base growth in all municipalities averaged 98% ($6,669 to $12,931). Yet cities were able to finance increases in the supply of public services with essentially the same tax rate simply due to considerable increases in intergovernment aid. Thus, to an extent, fiscal imbalance has been offset by grants from the State and Federal governments. In 1969, all municipalities generated 97% of their revenues internally (Table 5.2). Similarly, cities supported 94% of their revenues from their own sources. By 1976, all municipalities were still contributing 93% toward total revenues, but the share supported by cities fell to 77%. Twenty-three percent of city revenues were grants from State and Federal sources.*

TABLE 5.2

SOURCE OF REVENUE, BIG SIX CITIES, NEW JERSEY

	1969		1976	
	Own Source	State & Federal Aid	Own Source	State & Federal Aid
Big Six Cities	94%	6%	77%	23%
All N.J. Municipalities	97%	3%	93%	7%

SOURCE: *Annual Report of the Division of Local Government Finance*, op. cit.

Whether two data points can identify a trend is debatable. However, it is clear that continued economic deterioration of the cities will erode the city's ability to finance its own spending programs. In fact, studies of the composition of urban population find relatively high concentrations of low-income, low-skilled, indigents, and senior citizens. These population subgroups demand additional and costly social programs which the cities are increasingly incapable of financing. In addition, the supply of city social services seems to prevent expenditures for city economic development; further widening the gap between ability to pay and urban revitalization.

Urban Aid

Grants-in-aid from State and Federal governments have changed city spending in terms of both the level and the composition of services supplied by local governments. At the same time, as higher levels of government are sharing their revenues with the cities, they are intervening with the decisions of each jurisdiction in determining what services should be provided and who should pay for the benefits.

A review of State and Federal grants-in-aid programs will illustrate how several local services are being financed. We also attempt to demonstrate how the nature and design of gants-in-aid often produce unintended fiscal effects.

Much of the analysis of urban aid has focused on the allocational results of specific programs, that is, how have recipient governments responded in allocating Federal and State funds between and within the private and public sector. In other words, has the grant expanded the size of local government (as measured by expenditures for goods and services) or has there been a change in the public-private mix with only a part of urban aid being used to expand services and the remainder passed back to the private sector in the form of reduced taxes. Before reviewing current Federal and State urban aid programs it is useful to provide a framework from which one can evaluate the strength of the incentive in terms of the grant design.

Typically, the response of city governments differs depending whether the grant-in-aid requires local matching effort and whether the grant is general or categorical.**

* It is important to note that local governments are *not* required to report the receipt and expenditure of federal grants for many general and specific programs. Secondary data sources suggest that cities may be spending 50% or more in Federal grants above what is reported here.

** A matching grant requires the receiving governmental unit to supply a specified share of the program's costs (i.e., welfare). Non-matching grants are outright transfers to a local government. A general (or block) grant may be used for almost any purpose, while a categorical grant is restricted to a specific program.

Differences in response patterns are related to expected price and income effects associated with the grant. For instance, studies* have shown that a non-matching grant, not linked to a specific program, is similar to a general income subsidy, that is, it creates an income effect. Part of the grant will lead to increased outlays on public goods, but part of the subsidy may lead to a general tax reduction thus increasing expenditures on private goods.

Distinct from the non-matching grant where only an income effect was present, a matching grant creates a substitution effect as well. That is, the price of the subsidized social good has now fallen relative to the price of other goods. As price falls we would expect increased purchases of the subsidized social good.**

The objective of securing a certain level of specific public good can thus be obtained at a lower cost with a matching grant since it supports the provision of a selected social service. Whereas the non-matching grant is general, and may be used to support the purchase of additional public goods (via more government spending) and/or more private goods (via a tax reduction).

If government wishes to increase expenditures on a particular public good X, a categorical grant earmarked for the sole use of purchasing X will be at least as effective in securing increased spending on X as will be an equally sized general grant. If the size of the categorical grant is relatively small some increased purchases of X will result as well as increased outlays for other public goods. However, if the size of the grant is relatively large, a categorical grant will induce larger purchases of good X than will an equally sized block grant.

The situation for non-categorical grant, i.e., general revenue sharing or block grants, differs since there is only an income effect, i.e., the government now has more money. The grant expands the resources available to local government and can be used for some combination of increased spending, reduced taxes or borrowing. Since there is no price effect, the grant does not create a bias in favor of increased spending on any particular good or service.

With this general framework in mind, a review of current Federal and State urban aid programs can contribute to an understanding of past approaches to the urban fiscal problem.

State Urban Policy

New Jersey State government currently finances explicit local urban aid through two programs: Urban Aid, and Safe and Clean streets. In 1976 these programs returned $51 million to twenty-eight distressed urban municipalities.† Originally, urban aid was restricted to New Jersey's "Big Six" cities. However, a strong case was made to include smaller municipalities suffering big city problems; i.e., high concentrations of population and a demonstrated inability to finance local public services.

The State Urban Aid program in FY 1976 totaled $39 million in non-matching, non-categorical grant funds. Recipient governments can spend grant moneys on a wide range of programs that "maintain, improve, and/or upgrade" local public services. For the most part, the Urban Aid municipalities have used the program to subsidize employment. A review of proposed expenditures in 1977 shows that more than 85% of the grant is being spent on wages and salaries

---

* See for example, Wallace Oates, *Fiscal Federalism*, Harcourt Brace, 1972, Musgrave and Musgrave, *Public Finance in Theory and Practice*, McGraw Hill, 1976, or James Wilde, "Grants-in-aid: The Analytics of Design and Response," *National Tax Journal*, vol. 24, June 1971, pp. 143-55.

** For example, before State legislation establishing the "Safe and Clean Streets Act" was established, no N.J. city actively supported a walking patrolmen program. The State grant provided income to the cities (an income effect) while the matching requirement lowered the price of additional patrolmen from 100% to 50% (substitution effect). Thus the $7 million grant encouraged cities to spend $14 million for additional police protection.

† An urban aid municipality has 15 thousand or more in population an equalized tax rate which is above the State average, and equalized tax base below the State average, more than 350 welfare school students and contains at least one publicly financed multi-unit dwelling. Note that a recent formula update has added an additional three municipalities to the Urban Aid group. However, budget limitations and provisions guaranteeing levels of funding to the original 28 urban areas may preclude the three new municipalities from receiving urban aid this year.

for more than 2,600 public employees. Budget summaries show police and fire departments receiving more than half of Urban Aid funds, with the remainder spent on functions ranging from housing inspections to tree trimmers.

The $39 million appropriation for Urban Aid is distributed by formula. Newark receives the largest individual grant of $11.1 million or $28.62 per capita, and North Bergen receives the smallest grant—$74 thousand or $1.52 per capita.

As a non-specific grant Urban Aid is akin to an income subsidy and thus the program does not create a bias in favor of any one public service. Presumably, local units are using the grant in areas of greatest demand, that is, as a wage subsidy. The non-matching feature eliminates the price effect and little additional spending is generated. In other words, Urban Aid is not leveraged with either local or private moneys. Overall, the supply of local public services is most likely not very responsive to increases in Urban Aid. As a result, the grant provides a substitute for local spending and serves, in part, to provide local fiscal relief.

The Safe and Clean Neighborhoods program differs drastically in both philosophy and design. The $11 million categorical grant is allocated to Urban Aid municipalities by a formula subject to a dollar-for-dollar match from the local government. Funds are distributed for specific projects to reduce crime, improve police-community relations, and provide physical rehabilitation of urban neighborhoods. More specifically, the "safe" component provides for more than 800 walking patrolmen, while the "clean" component funds street lighting, paving, and curb and sidewalk repair.

The categorical requirements of Safe and Clean concentrates scarce State funds on a single urban problem—neighborhood security. The matching requirement reintroduces the price effect not found under the urban aid program by lowering the cost of city patrolmen relative to other public goods. Thus the initial $11 million grant generates $22 million in spending for safe neighborhoods.

Another recently enacted State urban assistance program (P.L. 1977, Chapter 72) transfers funds to local governments in partial payment for real estate taxes on State-owned property in urban areas. The "in-lieu" payment is a general, non-matching grant that will finance the non-education portion of the local tax bill. Although actual taxes on State property far exceeds the initial appropriation this is a first step in recognizing the burden State property places on municipalities without a corresponding contribution to the local tax base.

Federal Urban Aid Programs

There is some difficulty in identifying those Federal programs which are urban in design. Indeed, untangling the web of Federal grants-in-aid is a complex and perhaps impossible task. In fiscal year 1976, the Federal government returned $57.4 billion to State and local governments; however, this does not include the entire costs which sub-national governments incur for obtaining Federal grants. If costs of administration and matching funds were counted, State and local units are estimated to provide approximately $1.00 for each $3.00 of Federal aid.*

The Tax Foundation has designed a formula to show where the tax dollars used to finance federal aid actually originate. This analysis shows that Federal aid to New Jersey is costly to our residents. The combined effect of high personal incomes in the State and the progressive Federal income tax, impose a federal tax cost of $1.25 for every $1.00 of Federal grants returned to the states (Table 5.3). Within the Northeast region Connecticut pays $1.31, Pennsylvania $1.00, and New York only $0.82. A comparison with selected sunbelt states shows Federal costs of $1.22 in Florida, $0.70 in Arkansas, and $0.57 in Mississippi.

* Estimates provided by the Tax Foundation, Inc., see *Monthly Tax Features*, Vol. 22, No. 4, May 1978, New York, New York.

TABLE 5.3

ESTIMATED TAX BURDEN OF FEDERAL GRANTS, SELECTED STATES, FISCAL YEAR 1977

Snowbelt	Tax Burden Per Dollar of Aid	Sunbelt	Tax Burden Per Dollar of Aid
Connecticut	$1.34	Florida	$1.22
Ohio	1.31	South Carolina	.80
New Jersey	1.25	Alabama	.76
Maryland	1.16	West Virginia	.73
Michigan	1.01	Arkansas	.70
Pennsylvania	1.00	Georgia	.66
New York	.82	Mississippi	.57

SOURCE: Tax Foundation, Op. Cit.

The following grants-in-aid, summarized in Table 5.4, constitute the lions share of Federal Urban Aid in 1976. Although the big six cities are reasonably homogeneous in terms of their urban problems the distribution of grants-in-aid is heavily skewed depending on whether or not the city qualified for sewage grants or special public works grants. For example Trenton rereceived a total of $586 per person, Newark $577 while Elizabeth was the beneficiary of a $116 per capita grant.

Community development block grants (U.S. Department of Housing and Urban Development—HUD) resulted from consolidating seven existing categorical programs (such as urban renewal and Model cities) into one non-categorical, non-matching grant. Funds could be used for any project that serves to develop viable urban neighborhoods, decent housing, and leads to expanded economic opportunities for residents. The justification used to reorganize disparate urban programs was to deemphasize Federal control and expand local discretion. Moreover, the money would go to general purpose governments at the local level, not to autonomous or semi-autonomous public agencies like housing authorities or neighborhood redevelopment authorities.

In Fiscal Year 1976, HUD distributed approximately $2 billion in community development money to State and local governments*

TABLE 5.4

SELECTED PER CAPITA GRANTS-IN-AID TO NEW JERSEY'S BIG SIX URBAN AREAS, FY 1976

GRANTS-IN-AID	NEWARK	JERSEY CITY	PATERSON	ELIZABETH	TRENTON	CAMDEN	BIG SIX AVERAGE
Federal:							
Community Development Block Grants	$54.99	$25.31	$27.39	$9.87	$44.58	$55.24	$38.66
Action Grants	5.98	2.28	3.61	3.63	18.16	6.76	5.64
CETA	75.30	78.47	86.58	68.71	194.92	102.80	87.38
Public Works**	5.13	1.96	6.79	2.86	125.08	....	15.56
Waste Water Treatment	380.10	....	....	1.41	153.98	3.06	144.45
General Revenue Sharing	23.91	18.27	18.22	12.39	14.67	19.53	19.34
State:							
Urban Aid	29.05	22.60	18.00	11.63	27.04	38.21	24.88
Safe and Clean	2.68	3.90	4.74	6.06	8.07	9.95	4.79
Totals	$577.14	$152.79	$165.33	$116.56	$586.50	$233.55	$340.70

* All cities with populations exceeding 50,000 and certain urban counties receive a direct allocation by formula. The formula itself is based on three factors: total population, the poverty population (double weighted), and overcrowded housing.

** Includes Title X funding and special economic assistance to Trenton. SOURCE: *Federal Outlays in New Jersey*, Community Services Administration, Washington, D.C., FY 1976 and *Tenth Annual Report*, New Jersey Department of Community Affairs, Trenton, New Jersey, FY 1977.

of which New Jersey's Big Six cities collected $42.5 million. This grant which is biased toward urban areas returned $38 per capita to N.J.'s Big Six cities as compared to approximately $25 nationwide. (Table 5.4))

Local governments are not required to report the receipt or use of Community Development Block Grants to the State; thus, there is no effective way to evaluate the program's aggregate success.

As a non-matching, non-specific grant the program functions much like a local government income subsidy. Presumably the grant encourages higher levels of public spending, but to a degree provides for local fiscal relief in terms of a wage subsidy or tax reduction.

The Community Service Administration (CSA) sponsors a number of anti-poverty programs. Of the $426 million spent in FY 1976, $6.2 million or $5.64 per capita was returned to New Jersey's Big Six cities for programs such as community organizations, job development, vocational training, and counseling. The categorical nature of CSA's programs require the local government to provide a 25% match for all requested funds.

CSA provides one of the few examples of categorical, matching grant programs and as such creates both the price and income effects.

The Comprehensive Employment and Training Act (CETA) funds job training and employment for the economically disadvantaged, unemployed, or underemployed. Local jurisdictions with more than 100,000 population qualify as prime sponsors and disbursers of funds. CETA spent $5.9 billion in FY 1976 which returned $95.9 million, or $87.38 per person to New Jersey's Big Six cities. CETA is a categorical, non-matching program which functions, for the most part, by placing the hard-to-employ on public payrolls. As a result, the city becomes addicted to CETA to maintain employment. Recent proposals, however, will provide more CETA funds for private sector jobs, incentives and training.

Grants and loans for public works (U.S. Department of Commerce) aid municipalities in constructing public facilities which will encourage long-term economic growth. All areas which experience lagging economic growth can apply for funds which are disbursed subject to a 80-20% matching requirement (for specially designated economic development districts). The program's categorical design encourages investment in deteriorated urban infrastructure while the matching requirement allows cities to leverage their own funds. Although Public Works meets the criteria of a well designed program, funding extensions are subject to Congressional appropriation. The temporary nature of this grant limits the choice of urban projects that could be undertaken.

In FY 1976, the U.S. Department of Commerce spent $151 million nationwide, of which $17.1 million was granted to New Jersey's big six cities. Although this provided only $15.56 per person, increased appropriations in FY 1977 raised the grant to $73.96 per person.

Urban waste water treatment is heavily subsidized with construction grants from the Federal Environmental Protection Agency. In FY 1976, the $4.3 billion national program targeted $159 million, or $144.45 per person, to New Jersey's Big Six cities. This grant is subject to considerable discretion by the state's environmental agency and New Jersey has chosen to invest heavily in urban sewage plant construction. In FY 1976, approximately 40 percent of the waste water grant funds available to New Jersey were expended in the six large cities, where only 15 percent of the State's population resides. The program is conditional subject to a 75-25% match from either the State or Local government. As with public works grants, sewage plant construction is categorical, and visible accomplishments are being realized. Public works projects are simultaneously contributing to urban economic development. Improvements to the city infrastructure will ensure that future residential, commercial, and industrial growth can be accommodated. Meanwhile the grant creates employment opportunities, especially skilled construction trade jobs.

In October 1976, President Ford signed into law the State and Local Fiscal Assistance Act Amendments of 1976, extending the general revenue sharing programs for three and three-quarter years and providing $25.6 billion for the term of the legislation. Revenue sharing is a non-categorical, non-matching gift. The distribution formula favors high density, high tax jurisdictions. Thus New Jersey's six largest cities received $21.2 million, or $19.34 per capita as compared to $17.45 per capita for the remainder of the State. Utilization reports filed in 1976 by all New Jersey municipalities report 89% of the grant was used to finance current operations, especially police and fire protection while only 11% was allotted for capital expenditures. It would appear that New Jersey municipalities are for the most part, using the grant for fiscal relief with little appropriated to permanent investments in economic development.

A more detailed breakdown of the types of financial aid to New Jersey cities is presented in Table 5.5.

Surprisingly 76% of the total grants-in-aid are classified as categorical. Earlier it was mentioned that categorical grants were at least as effective and probably more so in securing increased outlays for a particular social good. For the most part, the categorical program results in a visible improvement to the city's economic base, i.e., a new or rehabilitated sewage plant, etc.

The remaining twenty-four percent of the grants are block grants which amount to an income subsidy to the recipient government. This may induce additional public service, but a share of the grant is likely to finance overall property tax relief.

Looking at total grants for whether they require matching moneys or not, Table 5.5 shows that one-half of the total grants-in aid are non-matching programs.* A non-matching grant requires no local effort thus, cities may apply for programs for which there is little or no local demand. If that is the case, we would expect few tangible improvements to result in the city economy or infrastructure.

Matching requirements characterize the other half of Federal and State aid. In this instance, the local government can express their choice for those programs which they demand.

If we combine the two criteria, matching requirements with a categorical program, we would expect the strongest response. The Federal or State government can induce spending on certain social goods it feels are being neglected at the city level by introducing a categorical program. At the same time using a matching requirement will lower the price of that good relative to other social goods and allows the city to select the grant based on its own demand for that good or service.

TABLE 5.5

PER CAPITA GRANTS-IN-AID, 1976

	Total Per Capita Grant	Percent Categorical	Percent Non-Categorical (Block Grant)	Percent Matching	Percent Non-Matching
Newark	$577	81	19	68	32
Jersey City	153	57	43	05	95
Paterson	165	62	38	08	91
Elizabeth	117	71	29	12	88
Trenton	586	85	15	52	48
Camden	233	52	48	08	92
Total	340	76	24	50	50

* Although the six city average is evenly divided between matching and non-matching grants there is considerable variation among the cities ranging from 32% to 95% for non-matching funds. The principle cause for this is large public works or wastewater categorical grants allocated to selected cities.

TABLE 5.6

PER CAPITA BUDGETED EXPENDITURES, BIG-SIX CITIES, 1976

City	Total Expend.	Administration[1]	Public Safety[2]	Public Works[3]	Community Develop.[4]	Human Resources[5]	Statutory Expend.[6]	Debt Service	County Taxes	CETA
Newark	$696	$46	$124	$52	$11	$58	$38	$64	$218	$85
Jersey City	575	21	131	41	13	57	47	43	185	37
Paterson	423	23	93	44	12	25	22	25	135	44
Elizabeth	534	20	89	42	9	32	31	37	251	23
Trenton	530	27	116	32	21	66	34	17	171	46
Camden	490	28	125	39	4	36	33	6	171	48
Big Six	579	31	117	44	12	49	36	41	194	55
State Average	606	28	69	46	11	19	19	20	381	13

SOURCE: Thirty-Ninth Annual Report of the Division of Local Government Finance, New Jersey Department of Community Affairs, Forthcoming.

1. Includes expenditures for general government, judiciary.
2. Includes expenditures for police and fire protection.
3. Includes expenditures for streets, sewage, and trash disposal.
4. Includes expenditures for planning, housing, recreation, conservation, and budgeted capital improvements.
5. Includes expenditures for health and welfare, education (excl. schools).
6. Includes expenditures for employee pensions and fringe benefits.

Urban Expenditures

A review of current city government expenditures is needed before changes in financing urban programs can be suggested. Largely this restructuring will attempt to minimize the non-compensated use of scarce city resources by those residing outside the city and will concentrate efforts on internal (to the city) redevelopment.

Somewhat surprising is the fact that total per capita spending in the Big Six cities, $579 per person, is lower than the statewide average, $606 per person (Table 5.6). When the high demand for social programs is matched with urban expenditures there is some indication that the Big Six cities suffer from an undersupply of public services. Indeed, Camden City spends only 81% of the statewide average while Paterson spends less than 70%. Only the city of Newark, with its well documented economic and social problems, spends more than the average New Jersey municipality ($696 vs. $606).

Among disaggregated budget line items there is a general pattern of similarity in Public Works ($44 per capita) and Administrative expenditures ($31 per capita) except in Newark where a large staff administers all Federal and Urban Aid programs.

Real public safety expenditures in the Big Six cities have grown little since 1969 although urban crime rates have moderated. (In 1971 the FBI identified Newark as being the most crime ridden city in the U.S. By 1976 Newark's crime rate fell to 23rd in the nation.) Studies often question the direct relationship between falling crime rates and increased public safety expenditures, yet there is ample evidence that the lack of public safety burdens cities with two types of direct costs: the cost of injury, property damage or property loss; and the costs of maintaining police and the municipal court system. The latter measure is obvious, the six cities spent an average of $117 per capita, or 170% of the statewide average of $69 per person. To the extent that crime imposes economic costs on the city as well as perceptual fears of crime, relatively higher city expenditures on Public Safety are

justified in terms of a broad urban revitalization program.

Community Development spending by the Big Six cities, $12 per capita, approximates the State average, $11 per person. Although the cities may be spending substantial amounts of unbudgeted federal aid for economic development it is ironical that little effort is being made to revitalize the city economy. If cities are unduly burdened with providing social services budgetary limitations preclude spending for physical redevelopment. This might be one area where federal and state grants could be used more effectively.

There is no clearer example of the social burden borne by cities than the measure of spending for Human Resource Development (excl. secondary education). Trenton spends $66 per person, Newark $58, Jersey City $57, while all municipalities in the state average, $19 per person. Since population migration is common, it may be questionable whether cities should be liable for supplying Human Resource services to residents who may relocate for varying social and economic reasons.

Cities are also burdened with higher Statutory Expenditures. Cities supply relatively more services, employ more people and experience higher pension and employee fringe benefits. On the average, these costs were 210% above the statewide average.

Payments for debt service on prior capital spending projects is approximately double in the Big Six cities, as compared to the State average for municipalities, $41 to $20 per capita. Although State law prohibits municipality debt from rising above a certain level, several of the Big Six cities are precariously close to the statutory limit. This leaves little room for cities to debt finance large, long-term development projects but at the same time, their aging infrastructure is in need of extensive reinvestment.

Taxes paid to the county are the largest single budget line item in the cities ($194 per capita or 34% of total expenditures and also in the State $381). For the most part, these tax moneys are being used to finance the county court system, roads, and welfare programs. Even though cities already shoulder a disproportionate share of human resource expenditures, they are being taxed to finance additional human resource spending. Even a city like Elizabeth which has chosen to supply relatively few services, $251 per capita or 47% of the local budget, is earmarked for the county.

Overall, per capita spending by the typical New Jersey city approximates the statewide average but there are notable differences in the distribution of services supplied. Although an argument can be made for additional social goods, the cities are too poor to finance any increase in the level of such services from their own resources regardless of the tax rate imposed. Besides, when central cities tax their own residents to provide services to the poor, they inevitably increase the tax burdens of the poor themselves. The problems of the cities suggest the need to redistribute the responsibility and burden for providing urban public service.

Restructuring Urban Finances

Local home rule is a deep rooted tradition. Indeed, the power to make decisions on taxes and spending is an essential element of self-government. Yet this tradition has certain drawbacks in today's society. Certainly the responsibility (local) for providing public services does not correspond well with the ability to finance these expenditures especially when significant "spill-overs" characterize the benefits received by the population at large.

Almost all public service provides some benefits to people who live outside the jurisdiction of a local government. Particularly onerous are those programs whose full costs are internal to the city while the benefits spill over to neighboring jurisdictions. In programs where the external benefits are large relative to the internal ones, local voters are likely to choose not to tax themselves to any significant extent. If the decisions were made at a higher level of government (State or Federal) there might be a willing-

ness to expand these programs since the area in which the benefits accrue would coincide with the area in which the taxes were collected.

The category of services most easily identified with spillovers are those programs related to human resource development; i.e., education, health and welfare, libraries, and manpower training. The spillovers come from the fact that people migrate. There is a high probability that an inner city resident who becomes a skilled laborer following public manpower training will move to a new location where sufficient job opportunities are available. Thus the city loses its initial investment in human capital. Relieving cities of human resource services would provide significant fiscal aid through direct expenditure reductions and reduced county taxes for welfare services. Within this framework the Federal government is the appropriate authority to assume financial responsibility. If so the Big Six cities could reduce spending by $15.2 million initially and reduce their county taxes by roughly $7 million for a total of $22 million, or $20 per capita. These savings could reduce local property tax rates, to provide economic development incentives and/or be invested in urban revitalization programs.

Community health centers impose significant costs on cities yet are open to nonresidents as well. If adequate health care is as important to human capital development as is education, federal takeover is again justified. Fiscal relief to the Big Six cities would approach $16 million in direct outlays, $12 million in reduced county taxes, for a total of $28 million or $25 per capita.

A second category of spillovers accrues to certain services whose benefits cannot be contained to a single political jurisdiction. These services include environmental control, road repair, parks, and recreation facilities. Most services of this type provide regional rather than nationwide spillovers. State government is a close substitute for regional government. Exempting these services from local budgets would reduce revenue needs in the big six cities by $11 and lower county taxes by $2 million. A savings of $12 per capita could be realized.

The remaining broad expenditure categories in the city budget are essentially the city's responsibility, however, property taxes need not finance all the remaining services. Substantial sums can be raised through user charges for public services; examples include: hospital charges, public housing rents, water and sewer assessments. Although user fees are inappropriate in allocating "pure" public goods where the price system associated with private sector transaction fails, most public services are not "pure public goods." User fees could be extended to charge for those services whose benefits spillover to neighboring jurisdictions; examples include: charges for non-resident library services, non-resident tennis court fees, etc.

Overall, the under-supply of public services by cities would be less likely with user charge financing where the burden is spread out over a much larger population than with property tax financing where the entire cost falls on the city resident.

Conclusion

Rebuilding New Jersey's cities suggests massive amounts of new investment in just about all sectors of the urban economy. Yet, even if these resources were available, there are serious doubts as to whether or not it would be a worthwhile investment in light of projected future population growth rates. In the 1950's and 1960's New Jersey grew rapidly, absorbing in-migrants from the two metropolitan centers that flank the State, New York City and Philadelphia. During this period suburbs grew and cities declined. By 1976, the earlier trend reversed itself and the State lost more residents than it had gained. A period of much slower population growth began.

This scenario casts doubts as to whether New Jersey cities can regain the pre-eminance they enjoyed in the 1950's. Fewer people imply fewer houses, fewer jobs, and presumably fewer public services. Slow growth urban revitalization must be centered around reasonable goals and objectives. These may be stated in absolute terms

TABLE 5.7

SUGGESTED PROGRAM RESTRUCTURING—BIG SIX CITIES—1976
(dollars in millions)

Program	Direct Budget Impact	+	County Tax Relief	=	Total Relief	Per Capita Relief
Human Services Spillovers (Welfare and Health)	$31	+	$19	=	$50	$46
Public Service Spillovers	11	+	2	=	13	12
					$63	$58

such as the number of new job opportunities or rehabilitated houses. Or, in heuristic terms, such as a perceived improvement in the urban quality of life.

Aside from federal urban initiatives it is clear that a state or city with a slow growing economy cannot generate massive sums for urban revitalization. The most effective approach is to redistribute limited resources to achieve certain stated goals.

Within the city we have suggested Federal or State takeover of programs whose benefits often spill over to suburban communities. In return, the Big Six cities could pare spending by $63 million, or $58 per person (Table 5.7). Moreover, these savings could finance additional tax relief and help correct a major flaw in urban economic development; namely large urban-suburban property tax differentials.

A review of existing federal and state urban aid programs exposed a multi-faceted, complex plethora of programs that influence just about all segments of the urban economy. Moreover, each program is constrained by financial or time limits. Indeed, a program such as "Public Works," designed to stimulate projects related to long-term urban economic development, is a one-shot program subject to Congressional appropriation. This is not an isolated example; many other "long-term" federal programs are subject to sunset provisions.

The near-term future will reflect more, not less, urban aid programs; thus cities will rely even more heavily on funds from other sources. Without effective controls and supervision, there will be a diminishing requirement for efficiency and citizen participation in city government.

The greatest obstacle to analyzing the urban fiscal problem is the lack of information, this includes budgetary data, and economic data. New Jersey maintains unusually tight control over local government budgets and spending yet, large sums of Federal aid are conspicuously absent from local budget documents. Little is known about the progress and performance of existing Federal grants-in-aid. Without this basic management information it is difficult to assess the extent of urban distreess and even more difficult to design revitalization strategies.

Compounding the information problem is the network of Federal grants-in-aid which have distorted the mix and level of public services supplied by local governments. We suggest, as an alternative, that each of the Big Six cities design a comprehensive Economic Development Plan and pursue strategies that lead to community accepted goals and objectives.

VI

SCHOOL FINANCE REFORM IN NEW JERSEY: THE FIRST TWO YEARS*

Introduction

Governor Brendan Byrne initiated his second term in 1978 with a commitment to solve the multitude of problems faced by the cities of New Jersey. In March, President Carter outlined a series of policies designed to aid and strengthen the nation's urban communities. In no state is the crisis of the cities more apparent than in New Jersey. According to the index of urban conditions cited in the President's national urban policy report, five of the nation's twenty most distressed cities are in New Jersey.** In general, conditions of economic distress lead to severe fiscal problems. Many of New Jersey's most urban communities have insufficient resources to meet the high costs of providing public services to populations that often include large concentrations of people with below poverty level incomes. Consequently, in many New Jersey cities property tax rates are among the highest in the country and public services are provided at inadequate levels.

Because of the importance of public education in most local government budgets, cities in economic distress often have problems funding adequate levels of public education. In New Jersey, as in other states, the courts have taken the lead in responding to the fiscal conditions within the state by mandating school finance reform. In *Robinson vs. Cahill,* a case filed on behalf of a student in one of the state's poorest and largest urban communities, the State Supreme Court decided that the state's education finance system was unconstitutional because it relied on local property taxes for the funding of too large a portion of total education expenditures. The Court ruled that by relying on local taxation to provide revenues to support public education, the state Legislature had not provided for the "maintenance and support of a *thorough* and *efficient* system of free public schools," as mandated by the state constitution (emphasis added).†

The Court argued that because expenditures on public education and the level of property wealth were directly linked, the state's property poor districts, which include most of the state's largest cities, could not provide an adequate

---

* Prepared by James R. Knickman and Andrew Reschovsky. The authors are respectively, Assistant Professor of Public Administration, Graduate School of Public Administration, New York University and Assistant Professor of Economics, Tufts University.

** These cities, with their ranking in parentheses, are: Camden (3), Newark (4), Trenton (7), Paterson (15), and Jersey City (17). See the President's Urban and Regional Group Report. "A New Partnership to Conserve America's Communities; A National Urban Policy," March 1978.

† New Jersey Supreme Court, *Robinson vs. Cahill,* 303 A2d 273, 287.

level of public education.* The Court also recognized that some school districts may require the expenditure of extra dollars in order to provide adequate education programs. In particular, higher costs may exist in urban school districts and in those with disadvantaged children.**

In response to this legal mandate the New Jersey Legislature passed the Public School Education Act of 1975, which modified the state formulas used to allocate aid to local school districts and authorized a large ($400 million) increase in aggregate state support for public education. The New Jersey Supreme Court ruled that this new legislation appeared to satisfy the "thorough and efficient" clause of the state constitution (*Robinson vs. Cahill*, 355 A2d 129).

The analysis was conducted to determine whether or not the Public School Education Act has improved the fiscal position of urban communities. The new distribution of state education aid to local school districts is evaluated in the paper and the districts' responses to the new distribution are analyzed in terms of their educational expenditure and local property tax rate decisions.

Urban districts must receive larger percentage increases in state aid than other districts if school finance reform is to substantially improve their fiscal position relative to the state's suburban and rural communities. These large increases would allow the cities to make relatively large increases in their levels of educational expenditures or relatively large cuts in tax rates. The empirical results presented below indicate, however, that the poorest urban districts did not receive substantially larger increases in state aid. As might be expected, they therefore did not increase educational expenditures more than other districts, and did not decrease local school tax rates much more than the state average decrease. In fact, the data presented lead to three types of conclusions concerning impacts of the new funding law:

- Total aid to all types of school districts increased due to the new aid formulas but the poorest school districts received small percentage increases in total aid relative to other districts. Absolute increases in state aid among low income cities were slightly above the state average increase but moderately wealthy suburban and rural school districts experienced larger average increases than did the poorest cities.
- Both absolute changes and percentage changes in educational expenditures were very similar for urban, suburban, and rural school districts between 1975 and 1977. In addition, tax rates decreased by similar absolute and percentage amounts among all types of districts.
- Property values grew more quickly in suburban and rural areas than in urban areas between 1975 and 1977. The unequal growth in property wealth, the effects of which were not offset by the new state aid, suggest that the system of school finance in New Jersey was less equal in terms of ability to raise educational funds in 1977 than in 1975.

The analysis presented in this paper should help determine what role school finance reform had played and could potentially play in improving the fiscal status of New Jersey's cities. It can also provide information for other states which will review the implementation of New Jersey's school finance mechanisms to see if these mechanisms can play an important role in alleviating city fiscal problems.

The discussion is divided into three parts. In the next section, the fiscal conditions in New Jersey in 1975 prior to the implementation of the new school financing legislation are reviewed briefly. In Section II, the new legislation is described and the distribution of the new state aid is traced. Section III deals with the responses of school districts to the new aid in terms of increased spending levels and/or decreased tax rates. Finally, in the last Section some conclusions are drawn.

---

* The Court argued in *Robinson vs. Cahill*, 303 A2d 273, 297 that ". . . It may be doubted that the thorough and efficient system of school required by the 1875 Amendment can realistically be met by reliance upon local taxation. The discordant correlation between the educational needs of the school districts and their respective tax bases suggest any such effort would likely fail."

** New Jersey Supreme Court; *Robinson vs. Cahill*, 303 A2d 273, 297-298.

TABLE 6.1

A STATISTICAL SUMMARY OF NEW JERSEY SCHOOL DISTRICTS' FINANCES IN 1975

(A) TEN URBANIZATION AND SOCIOECONOMIC STATUS CATEGORIES

District Type	No. of School Districts (1)	No. of Students (2)	Equalized Value Per Pupil (3)	Current Expense Budget Per Pupil (4)	Own. Raise Revenues Per Pupil (5)	Equalized School Tax Rate (6)
1. Urban Low SES	66	401,239	$49,404	$1,511	$821	1.83
2. Urban Mod. SES	57	188,149	80,474	1,669	1,367	1.78
3. Urban High SES	21	57,833	77,795	1,806	1,526	2.03
4. Suburban Low SES ...	15	29,841	47,070	1,288	719	1.54
5. Suburban Mod. SES ..	52	147,125	63,856	1,461	1,114	1.93
6. Suburban High SES ..	94	271,520	77,429	1,711	1,419	1.93
7. Rural Low SES	52	56,437	49,784	1,421	810	1.72
8. Rural Mod. SES	39	35,559	57,444	1,551	1,100	1.94
9. Rural High SES	10	10,972	77,586	1.591	1,314	1.80
10. Seashore	34	36,656	114,217	1,681	1,063	1.36
All School Districts*	599	1,449,576	67,011	1,625	1,154	1.86

(B) FIVE EQUALIZED PROPERTY VALUE CATEGORIES

Equalized ($) Value Per Pupil**	No. of School Districts	No. of Students	Equalized Value Per Pupil	Current Expense Budget Per Pupil	Own. Raise Revenues Per Pupil	Equalized School Tax Rate
1. Less than 45,000	54	294,675	$31,614	$1,511	$573	1.98
2. 45,000 - 65,000	122	254,720	54,770	1,488	973	2.08
3. 65,000 - 80,000	110	261,974	73,282	1,547	1,240	2.01
4. 80,000 - 100,000	118	326,563	90,003	1,699	1,415	1.90
5. Greater than 100,000..	195	311,644	142,373	1,857	1,524	1.43
All School Districts*	599	1,449,576	67,011	1,625	1,154	1.86

All averages in this table and other tables throughout the paper are pupil weighted averages. In this table and table 6.2, the weights are pupils in 1975. In all other tables, the weights are pupils in 1977.

In this table, and in all tables that appear in the paper, the district type totals include 66 regional districts, 21 vocational districts and 72 districts too small to classify. Three districts, Pine Valley, Tavistock, and Pahaquarry, are not included even in the totals. These districts included few, if any, school children.

* Three districts with few, if any, school children are not included in the table.

** The Equalized Value categories are defined in terms of each district's 1977 Equalized Valuation per pupil. These categories contain the same districts in all five tables of the paper.

I. The Distribution of Fiscal Resources in 1975

As in most other states, the property tax base in New Jersey is very unevenly distributed. For example, both Newark and Camden had a property tax base (technically called equalized value) of less than $25,000 per pupil in 1975. In that year, high income communities like Englewood Cliffs and Bedminster had per pupil equalized values of over $250,000. Twenty-eight of the State's most urban and most distressed cities are eligible for state grants called "urban aid." The average per pupil equalized value in these twenty-eight urban aid cities is $38,000, which is exactly half of the average equalized value in the State's remaining 574 school districts.

Not surprisingly, a consequence of this pattern of unequal local tax bases is a highly uneven distribution of per pupil spending levels and of school tax rates across communities. For example, current expenditures per pupil within Essex County ranged from $1,330 to over $2,290 in 1975.

The data in Table 6.1 present a profile of New Jersey's school districts in that year.* The State's 602 districts have been divided into ten categories in part A of the table. Districts have been categorized by their degree of urbanization, and by the average socio-economic status (SES) of their residents.** In part B of Table 6.1 districts have been divided into five categories of per pupil equalized value. As indicated in column 4 of the table, low SES urban districts (row 1) as a group spent less per pupil than the state average.† Also, districts with the smallest per pupil tax bases (less than $45,000), spent less on average than districts with larger tax bases. These low expenditure levels exist despite the fact that the costs of public education tend to be higher in urban school districts and in districts with disadvantaged children.‡

Although many of the State's urban centers spent relatively less on public education, their small tax bases forced them to levy school taxes at higher rates than suburban and rural communities. In fact, the State's largest cities, Newark, Trenton, and Camden, have school tax rates from two to three times higher than tax rates in prosperous suburban communities.

Unfortunately, the differences in school tax rates understate the severity of the fiscal problems facing the State's poor urban communities. Because the larger cities must provide extensive municipal services, many of which are directed explicitly to their poverty populations, the *municipal* tax rate is also considerably higher in most urban communities. Consequently, the school tax is a quite low proportion of a community's total tax rate in most low income cities. In 1974, school tax rates averaged 43% of total tax rates in the State's 28 "urban aid" cities. In the same year, school tax rates ranged between 60% and 70% of total tax rates in most of the State's suburban and rural communities.¶

In 1975, prior to the passage of new school financing legislation, local property tax revenue was used to finance on average 70.8 percent of total current expense budgets for schools. The remaining 29.2 percent of the budgets were financed primarily from state grants-in-aid and a small amount of federal aid.§ The largest share of these aid dollars were distributed in the form of "equalization aid." This type of aid was designed to help equalize the amount of resources available to school districts to support public education. Table 6.2 indicates clearly that the largest amounts of equalization aid went to urban districts and to districts with low equalized property values. However, it should be noted that even very high tax base districts (those with per pupil equalized values over $100,000, row 5, Table 6.2 (B), received considerable amounts ($143) of equalization aid.

The second major type of aid was categorical aid, which was distributed on the basis of enrollment in certain types of special programs (for example, programs for handicapped students). Not surprisingly, in 1975 categorical aid was not significantly equalizing. In other words, poor districts did not receive more categorical aid, on average, than rich districts.§§

---

* The source of the data employed throughout this paper is the New Jersey State Department of Education. The data have been compiled and analyzed by the authors.

** Based on a classification scheme originally developed by the N.J. Department of Community Affairs, each district was classified as being either urban, suburban, or rural. Because of the analytical problems created by the seasonally fluctuating population of seashore resorts, all seashore communities have been coded separately. The State Department of Education characterizes each school district as belonging to one of ten "district factor groups." Based on this classification scheme, each district is designated as being of either low, moderate or high socio-economic status (SES). The status index is based primarily on 1970 census data on the educational background, occupations, and average income of district residents .

† Most of the data discussed in this paper are weighted averages of the districts within each category of the classification scheme. Pupil enrollments as of Sept. 30, 1975 were used as weights in calculating averages in Tables 1 and 2. In the rest of the paper pupil enrollments as of Sept. 30, 1977 were used as weights. In this way the averages are calculated from the perspective of the average pupil, rather than the average district, within each category.

‡ These higher costs in urban areas were recognized by the Court in *Robinson vs. Cahill.*

¶ See Andrew Reschovsky and James Knickman, "Municipal Overburden in New Jersey: An Assessment," *New Jersey Urban Education Research Report,* no. 2, The N.J. Urban Education Observatory, 1976.

§ This figure slightly understates the State's role because it does not include the State's contribution to the Teacher Pension and Annuity Fund.

§§ The total state aid figures presented in Table 2 and throughout the paper include equalization aid, categorical aid and transportation aid.

TABLE 6.2

DISTRIBUTION OF EQUALIZATION AID, CATEGORICAL AID, AND TOTAL STATE AID IN 1975

(A) TEN URBANIZATION AND SOCIOECONOMIC STATUS CATEGORIES

District Type	Equalization Aid Per Pupil	Categorical Aid Per Pupil	Total State Aid Per Pupil
1. Urban Low SES	$525	$46	$587
2. Urban Mod. SES	141	42	206
3. Urban High SES	141	50	213
4. Suburban Low SES	373	34	449
5. Suburban Mod. SES	210	34	284
6. Suburban High SES	153	41	226
7. Rural Low SES	368	33	452
8. Rural Mod. SES	201	36	286
9. Rural High SES	119	42	224
10. Seashore	301	42	363
All School Districts	295	40	366

(B) FIVE EQUALIZED PROPERTY VALUE CATEGORIES

Equalized ($) Value Per Pupil	Equalization Aid Per Pupil	Categorical Aid Per Pupil	Total State Aid Per Pupil
1. Less than 45,000	$741	$47	$807
2. 45,000 - 65,000	345	35	415
3. 65,000 - 80,000	139	33	207
4. 80,000 - 100,000	130	40	200
5. Greater than 100,000	143	44	224
All School Districts	295	40	366

In summary, the state aid system provided more money per pupil to poor communities than to other communities in 1975 and school tax rates were generally much higher in New Jersey's poor urban communities. Despite these facts, the poorest school districts in the state spent less money on a per pupil basis for public education than many of their more prosperous suburban neighbors. This result was due predominantly to the highly uneven distribution of tax base among New Jersey communities in 1975, and in particular, to urban tax bases that were eroding relative to suburban tax bases.

II. The Impacts of the New Funding Law on the Distribution of State Aid to School Districts

The school funding changes initiated in 1975 were expected to alter substantially the pattern of state assistance to primary and secondary education. The law altered the grant formulas used to distribute state funds to local school districts and substantially increased the level of the State's aggregate financial support for public education.

The state aims of the new funding law were to decrease local school districts' reliance on local property taxes and to equalize the ability of districts with varying property wealth to provide "thorough and efficient" education. In this section of the paper, the effect of changes in equalization aid and categorical aid on the pattern of support for public education in New Jersey is explained.

Equalization aid, which under the new funding system is distributed by a percentage equalizing type formula, accounts for approximately 75 percent of total State aid in 1977. Under this formula, districts that either raise large amounts of property tax revenue or have small per pupil property tax bases receive more aid. However,

the formula guarantees every district, regardless of wealth a minimum amount of aid, and limits the total amount of aid allocated to districts that raise large amounts of property tax revenues.

Categorical aid supports compensatory, bilingual and special education. The distribution of this aid is based on the number of children with special needs in each district and on an estimate of the average extra costs across the State associated with the various types of compensatory, bilingual and special education.

The distribution of total state aid in 1977 and the two major types of state aid are presented for the ten urbanization-SES categories and five property wealth categories in Table 6.3. The data suggests the following conclusions:

1. In *absolute dollar terms,* the State's poorest districts and most highly urbanized school districts received the highest amounts of state education aid in 1977, the second year of the new funding law.
2. Low SES urban communities received small relative increases in state aid; percentage changes in total aid amounted to 55 percent in the poorest urban communities compared to the State average increase of 78 percent.
3. The moderate wealth districts (with equalized property values between $45,000 and $80,000 per pupil) experienced both *larger absolute* changes and *larger percentage* increases in total state aid than either the poorest or wealthiest districts.
4. Rural districts experienced larger percentage increases.

The pattern of state aid to local school districts for the 1977-78 year is clearly demonstrated by Table 6.3. Districts classified as low SES on average receive more state aid than moderate or high SES districts and poor urban districts receive more aid ($912 per pupil) than their suburban and rural counterparts. Moderate SES suburban and rural districts, however, received the largest absolute increases in state aid between 1975-76, the last year under the old funding law, and 1977-78, the second year of the new law.

In percentage terms, the largest increases occurred in modearte SES suburban and rural districts and high SES rural districts while the smallest percentage increases in aid occurred in low SES urban districts. It is clear that the new funding law did not on average strengthen the fiscal position of low SES urban districts relative to other districts in the State.

The distribution of total state aid is most influenced by the distribution of equalization aid, which is the largest state aid program. The middle columns in Table 6.3 demonstrate that in 1977 low SES urban districts received the most equalization aid per pupil. However, suburban and rural districts receive more equalization aid than do moderate and hig SES urban districts. Although this latter result may seem paradoxical at first, it is simply explained by the higher per pupil equalized property value in moderate and high SES urban districts than in suburban and rural districts and by the relatively high expenditures on education in some suburban and rural towns.

The change in the equalization aid formula has not helped the relative fiscal situation in the poorest urban cities. Between 1975 and 1977, suburban and rural districts received both larger absolute increases and larger percentage increases in equalization aid than did the lowest SES urban districts. This result is due in part to the relatively high level of equalization aid already allocated to urban districts in 1975 by the old formula, which allocated additional aid to districts with high welfare case loads.

The equalization aid formula provides more aid to districts with low per pupil equalized valuations and to districts with high per pupil expenditure levels. The formula takes no account of factors such as variations in competing non-education demands for tax dollars or variations in costs of education across districts.*

* In general local governments in urban communities face higher levels of demand for municipal services, such as police, fire, sanitation and recreation, than governments in suburban or rural communities. In order to meet these demands, urban municipal governments may be forced to use tax resources that would have otherwise been used to support public education. For a more detailed discussion of these issues, see Reschovsky and Knickman (1976), op. cit.

TABLE 6.3

CHANGES IN DISTRIBUTION OF STATE AID BETWEEN LAST YEAR OF OLD FUNDING LAW (1975) AND SECOND YEAR OF NEW FUNDING LAW (1977)*

(A) Ten Urbanization and Socioeconomic Status Categories

District Type	Number of School Districts (1)	Number of Students (2)	Categorical Aid Per Pupil in 1977 (3)	Change in Categorical Aid: 75 - 77 (4)	% Change in Categorical Aid: 75 - 77 (5)	Equalization Aid Per Pupil 1977 (6)	Change in Equalization Aid 75 - 77 (7)	% Change in Equalization Aid 75 - 77 (8)	Total State Aid Per Pupil in 1977 (9)	Change in Total State Aid: 75 - 77 (10)	% Change in State Aid 75 - 77 (11)
1 Urban Low SES	66	383,200	$159	$113	246%	$714	$189	36%	$912	$325	55%
2. Urban Mod. SES	57	173,354	83	41	98	304	163	116	432	226	110
3. Urban High SES ...	21	53,087	84	34	65	303	162	115	429	216	101
4. Suburban Low SES..	15	28,893	112	78	229	531	158	42	725	276	61
5. Suburban Mod. SES .	52	141,692	72	38	112	476	266	127	622	338	119
6. Suburban High SES.	94	250,031	71	30	73	349	196	128	482	256	113
7. Rural Low SES	52	54,413	76	43	124	560	192	52	741	289	64
8. Rural Mod. SES	39	33,121	86	50	132	503	302	150	687	401	140
9. Rural High SES	10	11,170	63	21	50	360	241	203	546	322	144
10. Seashore	34	34,960	99	57	136	438	137	46	580	217	60
All School Districts..	599	1,383,495	102	62	155	488	193	65	652	286	78

(B) Five Equalized Property Value Categories

Equalized Value Per Pupil ($)	Number of School Districts	Number of Students	Categorical Aid Per Pupil 1977	Change in Categorical Aid: 75 - 77	% Change in Categorical Aid: 75 - 77	Equalization Aid Per Pupil 1977	Change in Equalization Aid 75 - 77	% Change in Equalization Aid 75 - 77	Total State Aid Per Pupil in 1977	Change in Total State Aid: 75 - 77	% Change in State Aid 75 - 77
1. Less than 45,000	54	286,613	$163	$116	247%	$926	$185	25%	$1134	$327	41%
2. 45,000 - 65,000	122	249,549	98	63	180	664	319	92	834	419	101
3. 65,000 - 80,000	110	252,343	82	49	148	453	314	226	608	401	194
4. 80,000 - 100,000	118	303,816	80	40	100	260	130	100	399	199	100
5. Greater than 100,000.	195	291,174	82	38	86	173	30	21	323	99	44
All School Districts..	599	1,383,495	102	62	155	488	193	65	652	286	78

* All averages for 1977 data in this table are weighted averages, the weights being pupil totals in 1977. All data concerning changes in aid and percentage changes in aid are changes in weighted averages. It should be noted that changes in weighted averages are not algebraically equal to weighted averages of changes.

These factors tend to make it more difficult for an urban district than for suburban or rural districts to raise funds for adequate education programs, even if the urban and non-urban districts have equal per pupil property wealth.*

The distribution of categorical aid has substantially increased for low SES urban districts under the new legislation. These districts experienced the largest absolute and percentage increases in categorical aid between 1975 and 1977. However, because categorical aid remains a relatively small proportion of total state aid, the impact of the new legislation on poor urban districts is dominated by the distributional pattern of equalization aid, which has not been as favorable to low SES urban districts.

A slightly different way to consider the impact of the State's education finance changes is to compare the distribution of new aid across categories of school districts grouped by per pupil equalized property valuation. Table 6.3(B) present average aid in 1977 and average changes in aid for towns grouped into five equalized valuation categories. The data indicate that wealthier towns received less aid of each type than poorer towns during 1977. Thus the overall pattern of New Jersey state aid tended to equalize the ability of districts across the state to finance local education.

Surprisingly, however, the net *changes* in equalization aid resulting from the new formula strengthened the fiscal position of moderate wealth school districts in the $45,000 to $80,000 per pupil equalized valuation range substantially more than low wealth school districts. Equalization aid in low wealth districts (less than $45,000 per pupil equalized valuation) increased between 1975 and 1977 by $185 per pupil, while equalization aid increases in moderate wealth districts averaged between $314 and $319 per pupil. In the case of districts with equalized valuation in the $65,000 to $80,000 range, the $314 increase represented a tripling of 1975 levels of equalization aid. Low wealth districts' equalization aid, by contrast, increased by only 25 percent.

The end result of the new education laws is an increase in the average share of total current expenditures financed directly by the State, through equalization aid, categorical aid, and transportation aid from 23 percent in 1975 to 33 percent in 1977. Aid as a proportion of total expenditures is greatest in low SES urban areas where the State on average pays for 50 percent of local education expenditures. Among towns grouped in the low wealth equalized valuation category, the State now pays 62 percent of all education expenditures.

III. Changes in Educational Expenditures and Tax Rates Between 1975 and 1977

The Public School Education Act of 1975 greatly increased state aid to the State's school districts. Since 1975, annual state support has increased by approximately $400 million. School districts' use of these new funds will be examined in this section.

The receipt of state aid directly increased the resources available to each school district. If a local district maintained its school tax rate at its 1975 level, increased state aid of $100 per pupil would allow expenditures per pupil to rise by $100. However, the local school district may have chosen to lower the rate at which residents were taxed by substituting state aid for locally raised revenues on a dollar for dollar basis, expenditures per pupil will remain unchanged.

Table 6.4 presents data on per pupil expenditure levels, own-raised revenues (i.e., revenues from local property taxes), and school tax rates for the major categories of districts. These data provide evidence on expenditure and tax rate patterns since the implementation of the new legislation.

Average per pupil expenditures increased by 22 percent between the 1975-76 and the 1977-78

* This means that residents of urban districts may have to bear a higher total tax rate than their suburban neighbors, in order to provide an equivalent level of local public services.

TABLE 6.4

CHANGES IN EXPENDITURES, OWN RAISED REVENUES, AND LOCAL SCHOOL TAX RATE BETWEEN LAST YEAR OF OLD FUNDING LAW (1975) AND SECOND YEAR OF NEW FUNDING LAW (1977)*

(A) Ten Urbanization and Socioeconomic Status Categories

District Type	Total Expend. Per Pupil in 1977 (1)	Change in Total Expend. 75 - 77 (2)	% Change in Total Expend.: 75 - 77 (3)	Own Raised Rev.: Per Pupil in 1977 (4)	Change in Own Raised Rev.: 75 - 77 (5)	% Change in Own Raised Rev.: 75 - 77 (6)	Tax Rate in 1977 (7)	Change in Tax Rate: 75 - 77 (8)	% Change in Tax Rate 75 - 77 (9)
1. Urban Low SES	$1,851	$340	23%	$790	—$31	—04%	1.55	—.28	—15%
2. Urban Mod. SES	2,086	417	25	1,496	129	09	1.60	—.18	—10
3. Urban High SES	2,227	421	23	1,689	163	11	1.85	—.18	—09
4. Suburban Low SES	1,640	352	27	760	41	06	1.33	—.21	—14
5. Suburban Mod. SES	1,778	317	22	1,075	— 39	—04	1.48	—.45	—23
6. Suburban High SES	2,102	391	23	1,534	115	08	1.65	—.28	—15
7. Rural Low SES	1,754	333	23	779	— 31	—04	1.33	—.39	—23
8. Rural Mod. SES	1,903	352	23	1,013	— 87	—08	1.52	—.42	—22
9. Rural High SES	1,866	275	17	1,256	— 58	—04	1.52	—.28	—16
10. Seashore	2,072	391	23	1,137	74	07	1.20	—.16	—12
All School Districts	1,989	364	22	1,187	33	03	1.57	—.29	—16

(B) Five Equalized Property Valuation Categories

Equalized ($) Value Per Pupil	Total Expend. Per Pupil in 1977	Change in Total Expend. 75 - 77	% Change in Total Expend.: 75 - 77	Own Raised Rev.: Per Pupil in 1977	Change in Own Raised Rev.: 75 - 77	% Change in Own Raised Rev.: 75 - 77	Tax Rate in 1977	Change in Tax Rate: 75 - 77	% Change in Tax Rate 75 - 77
1. Less than $45,000	$1,830	$319	21%	$510	—$63	—11%	1.62	—.36	—18%
2. 45,000 - 65,000	1,849	361	24	864	—109	—11	1.58	—.50	—24
3. 65,000 - 80,000	1,909	362	23	1,171	— 69	—06	1.60	—.41	—20
4. 80,000 - 100,000	2,082	383	23	1,562	147	10	1.74	—.16	—08
5. Greater than 100,000	2,239	382	21	1,754	230	15	1.34	—.09	—06
All School Districts	1,989	364	22	1,187	33	03	1.57	—.29	—16

* All averages in this table are weighted by 1977 pupil totals. The change and percentage change figures are computed as changes or percentage change in weighted averages.

school years. Although the 22 percent increase can be partially accounted for by a 12 percent increase in the cost of living index during the two-year period, it is clear that the new fiscal system has had a substantial positive effect on educational resources available in school districts across the State. In addition to increasing the state average educational expenditures, however, the reform was expected to alter the pattern of spending across districts. The pattern of spending cannot be expected to change unless the increases in spending vary substantially across types of districts. In particular, the pattern of spending can equalize only if districts with low levels of expenditures in 1975 make large increases in expenditures relative to other districts in the state.

Per pupil expenditures in poor urban districts remained below the state average expenditure levels in 1977. In both 1975 and 1977, the distressed cities on average spent more to educate their children than districts classified as low SES suburban or rural and moderate SES suburban. However, the gap in expenditures between poor urban districts and wealthy suburban districts has actually *increased* between 1975 and 1977. The two-year increase in per pupil expenditures in wealthy suburban districts averaged approximately $50 more than the expenditure increase in poor urban districts (Col. 2, row 1 vs. row 6, Table 6.4A).*

Why has the pattern of expenditures remained basically unchanged since 1975? Data in Table 6.4 indicate that the types of districts which received the largest amounts of state aid slightly reduced the amount of revenue they raised from local property taxes while wealthier districts actually increased their own raised revenues. For example, low SES urban districts actually raised an average $31 less from local school taxes in 1977 than in 1975 (Column 5, row 1). In other words, the increased state aid was used in part to substitute for locally raised revenues.

The data in the last three columns of Table 6.4 indicate that the new state aid helped the State's school districts raise expenditure levels while cutting property tax rates. Between 1975 and 1977 school property tax rate reductions averaged 16 percent in New Jersey. The largest average tax reductions occurred in school districts classified as moderate SES suburban, and low and moderate SES rural. The disparities in school tax rates between types of districts, however, have decreased significantly since 1975. Between 1975 and 1977 the coefficient of variation of school property tax rates decreased by 12 percent from .315 to .276.

Although most school districts in the State reduced their tax rates, only some districts actually experienced a reduction in own-raised revenue. Both low SES urban and high SES suburban districts averaged a 15 percent reduction in tax rates between 1975 and 1977, but the urban districts' own-raised revenue was *reduced* by four percent while the suburban districts' own raised revenue *increased* by eight percent. The reason for this is that between 1975 and 1977 the tax base, measured as per pupil equalized value, grew very unevenly throughout the state. Whereas the average growth rate in urban SES districts was 12 percent, tax bases grew by 45 percent in suburban low SES districts, and by 24 percent in suburban high SES districts.

In addition to assuring that a thorough and efficient level of education is provided in each district, school finance reformers are interested in guaranteeing the equality of educational *opportunity*. This second goal can be achieved by assuring that each school district has access to approximately equal resources for the support of public education. This implies that each school district should be free to determine its

---

* Expenditure data used in this paper were taken from local school budgets supplied to the New Jersey State Department of Education. In 1975-76 these budgets generally omitted Federal aid allocated to local districts under provisions of the Elementary and Secondary Education Act of 1965. However, in 1977-78 most local districts included this federal aid in their budgets. As larger amounts of federal aid tend to go to the larger and poorer cities, it is possible that the change in expenditure data presented in Table 4 is larger in the low SES category than it would have been if federal aid had been reported on the 1975-76 budgets. This would imply that low SES urban districts increased educational expenditures between 1975 and 1977 by even smaller amounts than suggested by Table 4.

TABLE 6.5

EXPENDITURES PER TAX RATE IN 1975 AND 1977*

(A) TEN URBANIZATION AND SOCIOECONOMIC STATUS CATEGORIES

District Type	Exp./Tax Rate 1975 (1)	Exp./Tax Rate 1977 (2)	Change in Exp./Tax Rate 1975-1977 (3)	% Change in Exp./Tax Rate 1975-1977 (4)
1. Urban Low SES	$860	$1,214	$354	41%
2. Urban Mod. SES	984	1,513	529	54
3. Urban High SES	929	1,245	316	34
4. Suburban Low SES	831	1,244	413	50
5. Suburban Mod. SES ...	818	1,211	393	48
6. Suburban High SES ...	934	1,863	929	99
7. Rural Low SES	981	1,518	537	55
8. Rural Mod. SES	938	1,245	307	33
9. Rural High SES	958	1,336	378	39
10. Seashore	1,764	2,589	825	47
All School Districts	926	1,425	499	54

(B) FIVE EQUALIZED PROPERTY VALUE CATEGORIES

Equalized ($) Value Per Pupil	Exp./Tax Rate 1975	Exp./Tax Rate 1977	Change in Exp./Tax Rate 1975-1977	% Change in Exp./Tax Rate 1975-1977
1. Less than 45,000	$723	$1,176	$453	63%
2. 45,000 - 65,000	743	1,171	428	58
3. 65,000 - 80,000	885	1,211	326	37
4. 80,000 - 100,000	909	1,762	853	94
5. Greater than 100,000...	1,428	1,882	454	32
All School Districts	926	1,425	499	54

* Averages for 1975 data are weighted by 1975 pupils. Averages for 1977 are weighted by 1977 pupils. The change and percentage change data are changes in the weighted averages.

own property tax rate, but districts that choose identical rates should be able to provide identical levels of educational support. In other words, a state aid system should allocate aid so that equal tax rates will allow equal educational expenditure levels.

By dividing per pupil expenditure levels by school tax rates, the average expenditure each district can make for each percentage point of tax rate can be calculated. In any given district this ratio is larger the greater the district's per pupil equalized valuation and the greater its receipt of state and federal aid. The comparison across districts of this ratio of expenditures to tax rates is a good method for measuring the equality of educational opportunity within the State. To the extent that these ratios are similar, school districts with equal tax rates can provide equal levels of educational support.

Table 6.5 presents these data for both 1975 and 1977. The growth in per pupil equalized values and in state grants-in-aid both result in significant increases in these ratios. The startling result, however, is that many districts with the greatest expenditures per tax rate in 1975 have experienced the greatest increases in this expenditure to tax rate ratio. Low SES urban districts average $1,214 in per pupil expenditures for each percentage of tax rate, which is an increase of $354 (41%) over the 1975 level. This compares with high SES suburban districts which averaged $1,863 for 1 percent tax rate, an in-

crease of $929 (99%). Overall, the variation in spending per tax rate (measured by the coefficient of variation) has *increased* by 18 percent.

These data indicate clearly that in terms of ability to raise educational funds the system of school finance in New Jersey is *less* equal in 1977-78 than it was in 1975-76. This result occurred for two reasons. First, the economy of the State continued to grow in a spatially unequal manner, with the tax base growing at a significantly slower rate in the poorer, large cities than in the rest of the State. Second, as was demonstrated in Section II, the distribution of aid under the provisions of the Public School Education Act of 1975 has not offset the influences of unequal property wealth on educational spending patterns. Specifically, the new finance system has not strengthened the fiscal position of the State's distressed cities relative to the fiscal position of other New Jersey municipalities.

Conclusions

The evidence presented in this paper shows that the newly legislated school finance reform has not substantially changed the pattern of state educational aid within New Jersey. In particular, increased state aid has not been sufficient to counteract the impact of the continuing relative deterioration in the economic position of the State's largest and poorest cities. Even with increased state aid, many of the State's urban communities have considerably fewer resources available for the support of public education than neighboring suburban and rural areas.

These data will undoubtedly disappoint those who are concerned about educational finance reform and the fiscal conditions of New Jersey's most distressed cities. It is apparent that after two years the Public School Education Act of 1975 has not met the expectations of the reformers. Too little time has passed, however, to make a definitive judgment about the success or failure of the Act. The manner in which local school districts reacted to the large increase in the level of state aid since 1975 may not reflect their long range response to the higher aid levels. For example, strong political pressure may have existed, particularly in the State's high tax communities, to use the new state aid to reduce property taxes in order to offset the effect of the new personal income tax. However, if this pressure diminishes in succeeding years, these school districts may use larger portions of the state aid to increase expenditure levels.

The uncertainty over the continuance of the state income tax may have added to the pressure to restrain local spending levels for the 1977-78 school year. Before treating the new state aid as permanent income and making long-term plans concerning its possible use for improving local education systems, school districts may have decided to wait and see if the income tax and state aid system survived the 1977 election year. If the State's low expenditure districts, including many of the largest cities, increase educational expenditures in subsequent years, these districts will begin to receive larger amounts of equalization aid.

A final note of caution in interpreting the data presented here concerns the role of expenditure caps that were first initiated for the 1976-77 school year. More research is required before it can be determined if these limits on increases in expenditures mandated by the Legislature have had a significant impact on the actual pattern of educational expenditures observed in 1977.

Despite these caveats, it is clear that the system of financing education in New Jersey has far to go to achieve the goal of equal educational opportunity for children in all school districts. Extensive efforts within the State to increase state aid and to redistribute state aid have had surprisingly little impact on the overall pattern of finances and expenditures across districts.

The relative fiscal position of the State's most distressed cities has not been improved by the new funding system. The failure of the reforms to bolster the economic position of cities and the continued slow rate of growth of urban values suggest that more ambitious urban policy strategies are called for to renew the economic vitality of New Jersey's cities.

VII

PROFILE OF NEW JERSEY UNEMPLOYMENT*

Introduction

Economic growth can be achieved through a more efficient allocation of resources and by an increase in the amount of such resources. Unemployment in New Jersey constitutes an underutilization of the currently available State labor supply. Through the implementation of public policies designed to eliminate excess capacity, increased State economic growth may be realized. However, in order that we may discern those directions in which public policies might proceed, it is imperative to gain additional insight into the descriptive characteristics of New Jersey's unemployed.

This chapter reviews the unemployment situation within New Jersey. Data are presented for a series of years and compared with analogous data for the nation and other Middle Atlantic states. Most importantly, this chapter attempts to determine who the unemployed are and where unemployment is concentrated.

Since New Jersey is highly urbanized the total State unemployment picture is relevant to urban revitalization policies. However, a more detailed inspection of the unemployed within the core cities is warranted. Such statistics are unavailable for recent years. Nevertheless, at the end of this review, an attempt is made to estimate the magnitude and composition of city unemployment.

I. Unemployment Status of New Jersey Population

A. New Jersey Unemployment by Age, Race, and Sex, 1976

To more fully comprehend who are the unemployed in New Jersey it is essential to disaggregate the overall unemployment data for the State by as many demographic characteristics as possible. In doing so, a clearer picture can be formulated as to which segments of society endure the most severe unemployment, relative to the total.

Table 7.1 contains 1976 New Jersey unemployment data by age, race and sex. These statistics are in the form of both absolute levels (Column 1) and percentage rates of unemployment (Column 2). Table 7.1 suggests that, in absolute terms, whites comprise a much greater degree of total unemployment (289,000) than do nonwhites (56,000). The same statement can be made with reference to males (190,000) versus females (155,000) and to persons, age twenty and over (286,000) in comparison to teenagers (59,000). However, when the unemployment rates** in Table 7.1 are considered, a somewhat

---

* Prepared by Wendy Lee, Office of Economic Policy.

** The unemployment rate is the ratio of the number of unemployed to the civilian labor force. The latter includes persons employed and unemployed. The unemployed, as defined by the Bureau of the Census, are civilians, ages 16 and over that: (a) were neither "at work" nor "with a job, but not at work" during the reference week (the calendar week prior to the date on which census respondents either completed their questionnaire or were interviewed); (b) were looking for work during the past 4 weeks, and (c) were available to accept a job.

TABLE 7.1

COMPOSITION OF NEW JERSEY UNEMPLOYED BY AGE, RACE, AND SEX, 1976

	(1) Number (000's)	(2) Unemployment Rate (%)
Total	345	10.4
Males	190	9.7
Females	155	11.5
Males, Age 20 and Over	157	8.6
Females, Age 20 and Over	129	10.5
Both Sexes, Age 16-19	59	22.3
Total White	289	9.8
Males	157	8.9
Females	132	11.1
Males, Age 20 and Over	128	7.8
Females, Age 20 and Over	111	10.3
Both Sexes, Age 16-19	50	20.4
Total Nonwhite	56	16.2
Males	33	17.9
Females	22	14.2
Males, Age 20 and Over	31	17.5
Females, Age 20 and Over	18	12.4
Both Sexes, Age 16-19	7	33.3

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics

altered conclusion is reached. These percentages more accurately reveal the occurrence of unemployment among the various demographic groups. In particular, the following summarizes what the statistics for 1976 indicate:

1. Nonwhites suffer the highest unemployment rate (16.2%) in contrast to whites (9.8%) and to the State as a whole (10.4%).

2. Nonwhite youths experience the most acute unemployment rate (33.8%), whereas white males, age twenty and over have the lowest unemployment rate (7.8%).

3. In general, females encounter more unemployment than do males. Nonwhite females are an exception. Their rate of unemployment (14.2%) is lower than that of nonwhite males (17.9%).

4. For both racial classifications, youths, ages sixteen through nineteen, bear the most severe incidence of unemployment among all age categories. The overall youth unemployment rate (22.3%) is nearly double that of most other age or sex groupings.

In conclusion, it is the nonwhites, females, and youths that, in general, exhibit the highest rates of unemployment.

B. Unemployment and Labor Force Participation Rates in New Jersey, 1970-76

The relative participation of the various demographic segments of the population in the labor force is measured by the labor force participation rate. The civilian labor force (persons classified as employed or unemployed) of the particular group (e.g. a particular age-sex category) is divided by the noninstitutional population of the same group to arrive at this rate. The resulting labor force participation rate shows the percentage of persons actively employed and/or seeking work. Therefore, changes in labor force participation rates over time reveal whether the age-sex composition of the labor supply has changed and, if so, whether this change is manifested in employment, unemployment or both, thus affording additional insights into relative unemployment rates.

Table 7.2 and 7.3 contain the New Jersey participation and unemployment rates from 1970 through 1976 for men and women, whites and nonwhites, adults and teenagers. From 1970 to 1976 there has been a general increase in total labor force participation (59.6% to 61.6%). This increase has been accompanied by rising unemployment rates (3.8%-10.4%) during the same seven year span.

During the 1970-1976 period white labor force participation increased (59.4%-62.0%). The rise in participation was particularly sharp for youths (42.7%-57.6%). The change for women, although not as drastic as that for youths, was

TABLE 7.2

CIVILIAN LABOR FORCE PARTICIPATION RATES BY AGE, RACE AND SEX FOR NEW JERSEY, 1970-76
(percent of Civilian Labor Force)

	1970	1971	1972	1973	1974	1975	1976
Total	59.6	59.4	60.6	61.2	60.8	61.2	61.6
White	59.4	59.4	60.8	60.8	60.9	62.0	62.0
Men, Age 20 and Over	83.5	83.0	83.4	82.8	81.6	80.7	80.3
Women, Age 20 and Over	41.5	40.6	42.7	42.7	43.5	45.3	46.2
Both Sexes, Age 16-19	42.7	47.4	53.0	53.0	56.0	56.7	57.6
Nonwhite	61.8	59.8	59.3	64.6	60.3	59.3	59.4
Men, Age 20 and Over	79.8	82.0	79.9	81.4	78.4	76.4	75.6
Women, Age 20 and Over	54.8	51.4	50.6	57.6	51.3	51.2	52.6
Both Sexes, Age 16-19	32.1	26.9	30.9	39.1	40.2	39.1	37.7

SOURCE: Geographic Profile of Employment and Unemployment, various years; U.S. Department of Labor, Bureau of Labor Statistics.
Detailed Characteristics of New Jersey, 1970 Census of Population; U.S. Department of Commerce, Bureau of the Census.

TABLE 7.3

UNEMPLOYMENT RATES DISAGGREGATED BY AGE, RACE AND SEX FOR NEW JERSEY, 1970-76
(percent of Civilian Labor Force)

	1970	1971	1972	1973	1974	1975	1976
Total	3.8	5.7	5.8	5.6	6.3	10.2	10.4
White	3.5	5.3	5.2	5.2	5.8	9.5	9.8
Men, Age 20 and Over	2.5	3.9	4.3	3.6	4.1	7.9	7.8
Women, Age 20 and Over	4.5	6.6	5.3	5.8	6.1	9.9	10.3
Both Sexes, Age 16-19	7.4	10.3	11.4	13.5	15.1	18.8	20.4
Nonwhite	6.6	9.6	10.6	8.6	10.5	15.7	16.2
Men, Age 20 and Over	5.5	8.8	8.0	5.8	7.6	11.8	17.5
Women, Age 20 and Over	7.1	8.6	7.5	7.4	8.9	14.6	12.4
Both Sexes, Age 16-19	16.7	22.2	52.4	33.3	39.3	50.0	33.3

SOURCE: Geographic Profile of Employment and Unemployment, various years; U.S. Department of Labor, Bureau of Labor Statistics.
Detailed Characteristics of New Jersey, 1970 Census of Population; U.S. Department of Commerce, Bureau of the Census.

still a significant increase from 41.4% to 46.2%. These two surges more than offset the decline in participation for men (83.5%-80.3%).

The increase in job opportunities has not matched this influx of women and youths into the labor market. As a result (Table 7.3), the unemployment rates for women and teenagers have more than doubled from 1970 to 1976. Specifically, female unemployment jumped from 4.5% to 10.3%, whereas, teenage unemployment rose from 7.4% to 20.4%. However, it should be noted that in absolute terms, female employment rose from 1,071,919 in 1970 to 1,193,000 in 1976 while youth employment went from 177,000 to 206,000 over the same time.

We may conclude from the preceding data of Tables 7.2 and 7.3 that much of the rise in unemployment of white women and youths can be attributed to their increasing supply of labor. It may also be inferred from the statistics that, with this growth of both the labor force and the number of unemployed, the economy has an increasing labor reservoir composed, to a great degree, of women and youths with little or no

past work experience. These job seekers may be disadvantaged due to this lack of prior employment. Public policies aimed directly at reducing the unemployment of people characterized as such could prove an effective way to improve the overall employment situation.

Nonwhite labor participation (Table 7.2) has exhibited a general decline from 1970 to 1976 (61.8%-59.4%). Nonwhite youths are an exception to this downward trend. Their participation rate increased from 32.1% to 37.3%. Nonetheless, decreases have been experienced by both adult men (79.8%-75.6%) and adult women (54.8%-52.6%). During the same period, the unemployment rates of nonwhite men and women rose (5.5%-17.5% and 7.1%-12.4%, respectively).

Two severe national recessions over this time have led to both an increase in the unemployed and in the number of discouraged workers. Such people are defined as those who have been unable to obtain employment and/or who anticipate a low probability of finding a job, and thus, have dropped out of the labor market. Such discouraged workers are not included in either the measurements of unemployment or in the calculations of labor force participation because they are not considered to be actively seeking employment. This exclusion distorts the unemployment and participation rates and to an extent underestimates the true pervasiveness of the unemployment.

It can be assumed that the declining participation rates for nonwhite men and women, as well as for white men observed in Table 7.2 can be explained in part, by a tendency towards more discouraged workers. Table 7.4 lists the numbers of unemployed from 1970 to 1976. If the extent of discouraged workers has increased then the magnitude of unemployment, especially for nonwhite, is understated by these statistics.

II. Comparison of New Jersey's Unemployment and Participation Rates With Those of New York, Pennsylvania and the United States, 1976

A. Unemployment and Participation Rates

The experience of New Jersey can be compared with the unemployment statistics of two contiguous states (New York and Pennsylvania) and the nation. In this way, it is possible to determine if New Jersey's employment/unemployment situation is unique, or rather, it follows more general trends prevailing in the Northeast or in the country.

TABLE 7.4

COMPOSITION OF NEW JERSEY UNEMPLOYED
BY AGE, RACE AND SEX, 1970-76
(numbers in thousands)

	1970	1971	1972	1973	1974	1975	1976
Total	114	172	180	178	203	332	345
White	94	143	147	148	164	274	289
Men, Age 20 and Over	39	63	70	59	68	128	128
Women, Age 20 and Over	41	59	49	55	58	99	111
Both Sexes, Age 16-19	13	21	28	34	38	47	50
Nonwhite	19	29	34	30	39	58	56
Men, Age 20 and Over	8	14	13	10	14	21	31
Women, Age 20 and Over	9	11	10	11	14	24	18
Both Sexes, Age 16-19	3	4	11	9	11	13	7

SOURCE: Geographic Profile of Employment and Unemployment, various years; U.S. Department of Labor, Bureau of Labor Statistics.
Detailed Characteristics of New Jersey, 1970 Census of Population; U.S. Department of Commerce, Bureau of the Census.

TABLE 7.5

UNEMPLOYMENT RATES BY AGE, RACE AND SEX FOR NEW JERSEY, UNITED STATES AND OTHER MIDDLE ATLANTIC STATES, 1976
(percent of Civilian Labor Force)

	United States	New Jersey	New York	Pennsylvania
Total	7.7	10.4	10.3	7.9
White	7.0	9.8	9.9	7.2
Men, Age 20 and Over	5.4	7.8	8.4	6.0
Women, Age 20 and Over	6.8	10.3	9.6	6.7
Both Sexes, Age 16-19	16.9	20.4	22.1	16.8
Nonwhite	13.1	16.2	12.9	17.0
Men, Age 20 and Over	10.6	17.5	11.7	18.9
Women, Age 20 and Over	11.3	12.4	10.1	10.8
Both Sexes, Age 16-19	37.1	33.3	44.6	43.3

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.
Employment and Earnings, January 1977; U.S. Department of Labor, Bureau of Labor Statistics.

TABLE 7.6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY AGE, RACE AND SEX FOR NEW JERSEY, UNITED STATES AND OTHER MIDDLE ATLANTIC STATES, 1976
(percent of Civilian Labor Force)

	United States	New Jersey	New York	Pennsylvania
Total	61.6	61.7	58.1	58.2
White	62.0	61.8	58.5	58.8
Men, Age 20 and Over	80.3	81.5	79.2	78.5
Women, Age 20 and Over	46.2	46.6	42.6	42.3
Both Sexes, Age 16-19	57.6	52.2	47.2	54.5
Nonwhite	59.4	60.4	55.7	51.0
Men, Age 20 and Over	75.6	79.4	74.4	67.8
Women, Age 20 and Over	52.6	52.7	49.4	41.9
Both Sexes, Age 16-19	37.7	30.0	26.8	35.7

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.
Employment and Earnings, January 1977; U.S. Department of Labor, Bureau of Labor Statistics.

Tables 7.5 and 7.6 list the unemployment and labor force participation rates, respectively, disaggregated by age, race, and sex for the Middle Atlantic states and the United States as a whole.

As shown in Table 7.5, New Jersey in 1976 had the worst overall rate of unemployment (10.4%).* However, this was in conjunction with New Jersey exhibiting the highest rate of labor

* The most recent available unemployment data are monthly figures for May 1978. The unemployment rates are as follows:
United States = 6.1%;
New Jersey = 7.8%;
New York = 8.3%;
Pennsylvania = 6.5%.
These statistics were compiled by the New York Regional Office of the Bureau of Labor Statistics.

TABLE 7.7

DISTRIBUTION OF THE UNEMPLOYED BY OCCUPATION FOR NEW JERSEY, UNITED STATES, AND OTHER MIDDLE ATLANTIC STATES, 1976

	United States		New Jersey		New York		Pennsylvania	
	Number (000's)	Percent	Number (000's)	Percent	Number (000's)	Percent	Number (000's)	Percent
White Collar Workers								
Total	22,110	33.0	126	39.7	287	40.8	94	26.3
Professional & Technical	440	6.9	22	6.9	73	10.3	24	6.7
Management & Administrators, Except Farm	296	4.6	17	5.4	46	6.5	10	2.8
Sales Workers	312	4.9	21	6.6	38	5.4	14	3.9
Clerical Workers	1,062	16.6	67	21.1	129	18.3	46	12.8
Blue Collar Workers								
Total	3,009	47.0	151	47.6	297	42.2	204	57.1
Craft & Kindred Workers	831	13.0	44	13.9	95	13.5	50	14.0
Operatives, Except Transport	1,220	19.1	70	22.1	107	15.2	89	24.9
Transport Equipment Operatives	273	4.3	12	3.8	35	4.9	18	5.0
Non-Farm Laborers	685	10.7	25	7.9	60	8.5	47	13.1
Service Workers								
Total	1,151	18.0	39	12.3	113	16.0	57	15.9
Farm Workers								
Total	132	2.1	1	0.3	6	0.8	2	0.5
Grand Total	6,402	100.0	317	100.0	703	100.0	357	100.0

SOURCES: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics. Employment and Earnings, January 1977; U.S. Department of Labor, Bureau of Labor Statistics.

NOTE: The inexperienced unemployed are not included in these statistics.

force participation (61.7%, refer to Table 7.6). Thus, greater unemployment in New Jersey may be partially ascribable to greater participation in the labor market.

Table 7.5 further reveals that New Jersey's 1976 unemployment rates were significantly higher than the commensurable national averages. Nevertheless, they did not deviate much from the comparable rates in neighboring states, although white unemployment rates in Pennsylvania were relatively low compared to both New York and New Jersey.

The pattern of unemployment among the various demographic divisions was similar for all four geographic designations. Specifically, nonwhite unemployment exceeded that of white; teenagers, everywhere, endured the highest rates; and, female unemployment rates were greater than male rates, in general. The three Middle Atlantic states present an exception to this latter pattern in the case of nonwhite women where unemployment rates were substantially below that of nonwhite men.

In view of the rates in Table 7.6, New Jersey had in 1976, for most groups, the greatest labor force participation rate. Again, this may, in part, account for the aforementioned higher unemployment of New Jersey. The participation patterns of the various groups in New Jersey resemble those of the contiguous states and the country as a whole. Whites had greater labor force participation rates than nonwhites; male rates exceeded those of both women and teens; and, nonwhite women had higher participation rates than nonwhite youths.

It is possible that the 1976 participation rates of Pennyslvania are deflated, perhaps due to a larger percentage of discouraged job seekers.

This is especially evident in the statistics of nonwhites. In particular, overall nonwhite participation in Pennsylvania (51.0%) is significantly lower than that of nonwhites in either New Jersey (60.4%) or New York (55.7%). The same can be stated in the cases of both nonwhite men and women. If the data are deflated, then the degree of unemployment in Pennsylvania is also understated. It can be concluded that high unemployment is a regional characteristic, rather than a phenomenon unique to New Jersey. It is clear, however, that the degree of unemployment in the Middle Atlantic region in 1976 was significantly more than that of the nation, as a whole.

B. Unemployment by Occupation

Knowledge of the occupational distribution of the unemployed leads directly to policy implications. Table 7.7 provides such necessary information in the form of unemployment levels and the percentage of overall unemployment represented by each occupation. The figures are again compared with New York, Pennsylvania and the United States.

The distribution of the unemployed among occupations pinpoints those job areas which suffer the greatest impact of unemployment, relative to the total.

In all cases, blue collar workers comprised the largest percentage of total unemployment

TABLE 7.8

UNEMPLOYMENT RATES BY OCCUPATION FOR NEW JERSEY, UNITED STATES AND OTHER MIDDLE ATLANTIC STATES, 1976

(percent of Civilian Labor Force)

	United States	New Jersey	New York	Pennsylvania
White Collar Workers				
Total	4.6	7.1	6.9	4.1
Professional and Technical	3.2	3.9	5.5	3.5
Management and Administrators, Except Farm	3.1	4.9	5.5	2.3
Sales Workers	5.4	8.9	7.9	5.0
Clerical Workers	6.4	10.5	8.4	5.2
Blue Collar Workers				
Total	9.4	14.0	13.4	10.2
Craft and Kindred Workers	6.9	11.5	11.2	7.0
Operatives, Except Transport	10.8	16.8	14.0	11.6
Transport Equipment Operatives	7.7	9.6	12.5	8.5
Non-Farm Laborers	13.7	16.4	18.3	15.6
Service Workers				
Total	8.7	9.8	9.8	7.9
Farm Workers				
Total	4.5	6.4	6.4	3.4

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.
Employment and Earnings, January 1977; U.S. Department of Labor, Bureau of Labor Statistics.

* The categories of operatives and craftsmen include such workers as: assemblers, pressers, milliners, welders, bakers, engravers, opticians, upholsterers, etc.

TABLE 7.9

COMPARATIVE UNEMPLOYMENT RATE INDEX BY OCCUPATION FOR NEW JERSEY, NEW YORK AND PENNSYLVANIA, 1976* (USA=100.0)

	New Jersey	New York	Pennsylvania
White Collar Workers			
Total	154.3	150.0	89.1
Professional and Technical	121.8	171.8	109.3
Management and Administrators, Except Farm	158.0	177.4	74.1
Sales Workers	164.8	146.2	92.5
Clerical Workers	164.0	131.2	81.2
Blue Collar Workers			
Total	148.9	142.5	108.5
Craft and Kindred Workers	166.6	162.3	101.4
Operatives, Except Transport	155.5	129.6	107.4
Transport Equipment Operatives	124.6	162.3	110.3
Non-Farm Laborers	119.7	133.5	113.8
Service Workers			
Total	112.6	112.6	90.8
Farm Workers			
Total	142.2	142.2	75.5
Grand Total**	135.0	133.7	102.5

* This index is computed for the occupational groups in each of the three states by the following ratio: State Unemployment Rate by Occupation / U.S. Unemployment Rate by Occupation

** The grand total indices utilize unemployment rates of the total labor force, not just that of the experienced work force. Hence, these indices are not accurately representative, as an average, of the above occupational indices. The total unemployment rates are inclusive of such people that do not have prior work experience, e.g., youths, age 16-19 and various other non-specified groups in older age categories. To accommodate for this discrepancy, the following index is that of New Jersey's youth (16-19) unemployment rate divided by the comparable national rate: 117.3.

SOURCES: Geographic Profile of Employment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.
Employment and Earnings, January 1977; U.S. Department of Labor, Bureau of Labor Statistics.

(47.6% in New Jersey). Within this category, operatives and craftsmen* endured the most unemployment (36.0% of all unemployed and 75.4% of blue collar unemployed). This is especially true in both New Jersey and Pennsylvania.

The percentage of total New Jersey unemployment in white collar occupations (39.7%) was, except for New York, above the equivalent distributions elsewhere. Sales workers and clerical workers (27.7%) were particularly above the comparable rates in New York and Pennsylvania.

Table 7.8 offers a somewhat different perception of these magnitudes. It contains the unemployment **rates** by occupation. In general, the rates in Table 7.8 support the preceding conclusions as to which groups were most severely affected. Blue collar unemployment (14.0%) exceeded white collar unemployment (7.1%) in New Jersey, as well as in other areas. Operatives, notably within New Jersey (16.8%), experienced very high rates of unemployment. However, the degree of unemployment was much more acute among nonfarm laborers than among craftsmen. As previously concluded, clerical and sales workers (10.5% and 8.9% respectively, in New Jersey) exhibited the highest unemployment rates of all white collar workers.

Table 7.9 provides a relative measure of occupational unemployment rates for the Middle Atlantic states. These rates are viewed in relation to the comparable national averages. Such an index points to those job groups in which New Jersey has abnormally high unemployment, especially with regard to neighboring states. The largest differentials between New Jersey, New York, and Pennsylvania occurred for sales workers, clerical workers and operatives. In all three categories, New Jersey's indices were greater than the others. This sustains earlier suppositions that these workers encountered particularly high rates of unemployment in New Jersey.

All of New Jersey's occupational indices exceed one hundred. The average (135.0) is the highest of the three states and both blue collar and white collar indices (148.9 and 154.3, respectively) exceed the average. In addition to the operatives, sales and clerical workers, the craftsmen, farm workers and management had higher than average unemployment indexes. Absolute and relative reduction of occupational unemployment within New Jersey depends upon an awareness of the reasons underlying the observed distribution of unemployment which has been presented here.

III. Determination of the Geographical Distribution of Unemployment within New Jersey

It is now essential to determine how unemployment is geographically distributed in order to pinpoint those locations where the unemployed are most concentrated.

New Jersey's Department of Labor and Industry divides the State according to sixteen labor markets. These areas often encompass several counties, with no specific designation for urban versus nonurban regions. The employment status of labor market residents can be used as an indicator judging the relative economic performance of various sections in the State. Alternatively, a division of the State according to more narrowly defined geographic areas, for example central cities or city political boundaries, allows for a better understanding as to where the highest concentrations of the unemployed occur. In particular, such definitions will either support or reject the assumption that unemployment is mainly an urban phenomenon in New Jersey.

Employment statistics are readily available for the State and urban categories in the **1970 Census of Population.** However, a more recent set of figures has only been compiled for the entire State. The 1970 detailed data in combination with the developments since then in the State can serve as the basis for estimates of current city unemployment. Specifically, 1976 urban statistics can be approximated by applying the same rate of change in unemployment for the State, from 1970 to 1976, to the 1970 urban unemployment data.

A. Estimates of New Jersey's Urban Employment Status in 1976 by Sex

Table 7.10 contains the 1970 labor force participation rates, unemployment rates and unemployment numbers by sex for the State, cities, and central cities. These data were used as base year figures to estimate the comparable statistics for 1976 contained in Table 7.11.

TABLE 7.10

EMPLOYMENT STATUS BY SEX FOR NEW JERSEY AND URBAN AREAS, 1970

	State	Cities**	Central Cities†
Labor Force Participation Rate			
Male*	77.5%	75.8%	74.8%
Female*	42.5%	45.8%	44.9%
Unemployment Rate			
Male*	3.1%	4.3%	4.9%
Female*	5.0%	6.1%	6.7%
Unemployed			
Male*	56,909	16,912	13,421
Female*	56,685	17,072	13,158

SOURCE: General Social and Economic Characteristics of New Jersey, 1970 Census of Population; U.S. Department of Commerce, Bureau of the Census.

* Includes: Those 16 years old and over.

** Includes: Those cities whose 1970 population exceeded 50,000: Bayonne, Bloomfield, Camden, Clifton, East Orange, Elizabeth, Irvington, Jersey City, Newark, Passaic, Paterson, Trenton, Union City.

† Includes: Atlantic City, Clifton, Jersey City, Millville, Newark, Passaic, Trenton, Vineland.

TABLE 7.11

EMPLOYMENT STATUS BY SEX FOR NEW JERSEY AND URBAN AREAS,* 1976

	State	Cities†	Central Cities‡
Labor Force Participation Rate			
Male**	78.2%	76.5%	75.5%
Female**	47.1%	50.7%	49.8%
Unemployment Rate			
Male**	9.7%	13.5%	15.3%
Female**	11.5%	14.0%	15.4%
Unemployed (000's)			
Male**	190	56	45
Female**	155	47	36

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.

* 1976 data for the three urban categories are approximated by applying the percentage change in the comparable State data from 1970 to 1976.

** Includes: Those 16 years old and over.

† Includes: Those cities whose 1970 population exceeded 50,000: Bayonne, Bloomfield, Camden, Clifton, East Orange, Elizabeth, Irvington, Jersey City, Newark, Passaic, Paterson, Trenton, Union City.

‡ Includes: Atlantic City, Clifton, Jersey City, Millville, Newark, Passaic, Paterson, Trenton, Vineland.

In 1970 and 1976, male participation rates were lower in both urban categories, as compared to the entire State, whereas the reverse was true for females. The causative factors of these observations could range from an older male age composition in urban areas and/or more discouraged workers to a greater number of single women living in the cities seeking employment.*

Unemployment in 1970 was most severe in central cities, particularly for females. Greater participation in the urban labor market by women is one plausible explanation of their correspondingly higher rate of unemployment. Men also endured more unemployment in urban areas, which was, to a large extent, due to a mismatching of the skills/training demanded by the employers with those supplied by the work force.

Since participation rates and unemployment increased for both men and women from 1970 to 1976 in the State, the same rate of growth was applied to the equivalent urban categories. The relative positions of men versus women, cities versus State remained the same. However, male unemployment grew at a faster rate than did female unemployment and female participation increased more rapidly than that of males.

In conclusion, the date of Tables 7.10 and 7.11 support the proposition that unemployment is more highly concentrated within urban areas than the overall State figures would imply.

B. Estimates of New Jersey's Urban Unemployment by Occupation in 1976

Unemployment numbers and rates by occupation for the State and Urban locations in 1970 are contained in Tables 7.12 and 7.13, respectively. These data were compiled by the Bureau of the Census and are the basis for the 1976 unemployment estimates for the cities and central cities.

TABLE 7.12

UNEMPLOYMENT NUMBERS OF THE EXPERIENCED WORK FORCE BY OCCUPATION FOR NEW JERSEY AND URBAN AREAS, 1970

Occupation	State	Cities**	Central Cities†
Professional, Technical and Management	10,807	1,874	1,391
Sales Workers	5,688	1,094	883
Clerical Workers	17,872	4,451	3,283
Operatives, incl. Transport	35,846	13,472	10,687
Other Blue Collar Workers*	21,714	6,315	4,843
Farm Workers	467	115	92
Service Workers	11,833	3,524	3,114
Total	104,227	30,845	24,293

SOURCE: General Social and Economic Characteristics of New Jersey, 1970 Census of Population; U.S. Department of Commerce, Bureau of the Census.

* Includes: Craftsmen, Foremen and Non-farm laborers.

** Includes: Those cities whose 1970 population exceeded 50,000: Bayonne, Bloomfield, Camden, Clifton, East Orange, Elizabeth, Irvington, Jersey City, Newark, Passaic, Paterson, Trenton, Union City.

† Includes: Atlantic City, Clifton, Jersey City, Millville, Newark, Passaic, Paterson, Trenton, Vineland.

* See Work Force Migration Patterns, 1970-76; by Vernon Renshaw, Howard Friedenberg and Bruce Levine; reprint from Survey of Current Business, Feb. 1978; U.S. Department of Commerce, Bureau of Economic Analysis; p. 19.

TABLE 7.13

UNEMPLOYMENT RATES OF THE EXPERIENCED WORK FORCE BY OCCUPATION FOR NEW JERSEY AND URBAN AREAS, 1970

(percent of experienced Civilian Labor Force)

Occupation	State	Cities**	Central Cities†
Professional, Technical and Management	1.5	1.9	2.1
Sales Workers	2.5	3.1	3.7
Clerical Workers ..	3.0	3.2	3.5
Operatives, incl. Transport	6.3	7.4	8.0
Other Blue Collar Workers*	4.2	5.4	5.8
Farm Workers	2.9	7.0	5.5
Service Workers ..	3.7	4.0	4.7

SOURCE: General Social and Economic Characteristics of New Jersey, 1970 Census of Population; U.S. Department of Commerce, Bureau of the Census.

* Includes: Craftsmen, Foremen and Non-farm laborers.

** Includes: Those cities whose 1970 population exceeded 50,000: Bayonne, Bloomfield, Camden, Clifton, East Orange, Elizabeth, Irvington, Jersey City, Newark, Passaic, Paterson, Trenton, Union City.

† Includes: Atlantic City, Clifton, Jersey City, Millville, Newark, Passaic, Paterson, Trenton, Vineland.

According to Table 7.13, both city classifications have higher unemployment rates than the State in all occupational groups. The differentials between State and urban* are especially large for farm and blue collar workers (includes operatives and other blue collar workers). Within the urban areas, most of the rates of unemployment in central cities are more severe than their counterparts in cities. The sole exception to this is farm workers.

Professionals consistently have the lowest unemployment in both the State and urban areas, whereas operatives have the greatest. This suggests that blue collar workers compose a larger percentage of the urban unemployed than they do of the entire State's unemployed. Unemployment among blue collar and service workers comprises 75.6% of cities' total unemployed and 76.7% of central cities' total unemployed. In the State, the comparable groups comprise only 66.6% of total unemployed. The higher proportion of urban blue collar unemployment is, to some extent, a direct result of the recent exit of manufacturing activity from New Jersey cities, hence leaving the urban residents with a large reduction in blue collar job opportunities.

TABLE 7.14

UNEMPLOYMENT NUMBERS OF THE EXPERIENCED WORK FORCE BY OCCUPATION FOR NEW JERSEY AND URBAN AREAS,* 1976

Occupation	State	Cities†	Central Cities‡
Professional, Technical and Management .	39,000	6,761	5,018
Sales Workers	21,000	4,037	3,259
Clerical Workers ...	67,000	16,682	12,304
Operatives, incl. Transport	82,000	30,810	24,441
Other Blue Collar Workers**	69,000	20,062	15,386
Farm Workers	1,000	246	196
Service Workers ...	39,000	11,611	10,260
Total	318,000	90,209	70,864

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.

* Unemployment figures for the three urban categories are approximated in 1976 by applying the percentage change in the State's unemployment for each of the occupational groups from 1970 to 1976.

** Includes: Craftsmen, Foremen and Non-farm laborers.

† Includes: Those cities whose 1970 population exceeded 50,000: Bayonne, Bloomfield, Camden, Clifton, East Orange, Elizabeth, Irvington, Jersey City, Newark, Passaic, Paterson, Trenton, Union City.

‡ Includes: Atlantic City, Clifton, Jersey City, Millville, Newark, Passaic, Paterson, Trenton, Vineland.

The 1976 estimates of city unemployment levels and rates are shown in Tables 7.14 and 7.15. The State statistics contained in these two tables are the official figures from the Bureau of Labor Statistics. Between 1970 and 1976, increases of unemployment occurred within all occupations. Much of this observed growth resulted from the cyclical effects of the recession in 1974.

The unemployment changes were such, that the upsurge in white collar unemployment surpassed that of blue collar. In particular, both sales and clerical workers suffered substantial

* The term "Urban" refers to both "cities" and "central cities."

TABLE 7.15

UNEMPLOYMENT RATES OF THE EXPERIENCED WORK FORCE BY OCCUPATION FOR NEW JERSEY AND URBAN AREAS,* 1976
(percent of experienced Civilian Labor Force)

Occupation	State	Cities†	Central Cities‡
Professional, Technical and Management	4.3	5.3	5.9
Sales Workers	9.1	11.0	12.9
Clerical Workers ..	10.6	11.1	12.1
Operatives, incl. Transport	15.2	17.4	18.6
Other Blue Collar Workers**	12.9	16.2	17.4
Farm Workers	4.5	10.8	8.6
Service Workers ..	9.8	10.5	12.1

SOURCE: Geographic Profile of Employment and Unemployment, 1976; U.S. Department of Labor, Bureau of Labor Statistics.

* Unemployment figures for the three urban categories are approximated in 1976 by applying the percentage change in the State's unemployment for each of the occupational groups from 1970 to 1976.

** Includes: Craftsmen, Foremen and Non-farm laborers.

† Includes: Those cities whose 1970 population exceeded 50,000: Bayonne, Bloomfield, Camden, Clifton, East Orange, Elizabeth, Irvington, Jersey City, Newark, Passaic, Paterson, Trenton, Union City.

‡ Includes: Atlantic City, Clifton, Jersey City, Millville, Newark, Passaic, Paterson, Trenton, Vineland.

increases in unemployment rates. This resulted in an overall decrease in the share of blue collar and service workers in total State unemployment. Specifically, their proportion declined from 66.6% in 1970 to 59.7% in 1976.

If we assume that State patterns are applicable to the cities, then unemployment changes, similar to those of the State, occurred in urban occupations as shown by the 1976 estimates. Professionals continued to exhibit the lowest and operatives the highest rates of unemployment. Central cities' rates, in general, exceeded those of cities. Blue collar and service workers reduced their percentages of unemployment from 75.6% to 69.3% in cities and from 76.7% to 70.7% in central cities.

The most significant conclusion from the preceding analysis is that unemployment, in all occupations, is most acute in the State's urban areas. The magnitude of increase from 1970 to 1976 can only be approximated. Nevertheless, it is clearly evident that the unemployed are concentrated within urban areas and that blue collar workers constitute the majority of these unemployed.* This suggests that public programs should be aimed at the city with a special emphasis on enhancing opportunities for the blue collar worker.

Conclusion

This study identifies, in terms of age, race, sex, and occupation, who the unemployed are in New Jersey. Evaluation of the statistics indicates that nonwhites, females, youths and blue collar workers overwhelmingly endure large degrees of unemployment. The chapter also suggests where in the State these people are most highly concentrated. Although unemployment occurs everywhere, the urban areas appear to be the main locations for many of the unemployed.

Comparisons of New Jersey's unemployment situation with those of contiguous states and the nation as a whole afford a better understanding of our relative position. In reference to the preceding discussion, unemployment is particularly acute in the Middle Atlantic region. The individual figures for New Jersey are not especially divergent from those of its neighbors. High unemployment is a regional occurrence, rather than a phenomenon unique to New Jersey.

The data compiled for this chapter are only estimates of the severity of unemployment. Nevertheless, in comparisons over time, between geographic locations, and among population segments, they serve as relative measurements of the magnitude of unemployment.

* Qualifications to the estimates of city unemployment are given in the Appendix to this chapter.

APPENDIX TO CHAPTER VII

Qualifications to the Method of Estimating Urban 1976 Employment Status by Sex and Occupation

The method by which the 1976 employment and unemployment statistics for the two urban classifications were estimated entails a number of assumptions about trends in population, job availability, and the like. Specifically, the application of the State's percentage growth in unemployment by sex and occupation to the 1970 urban data assumes that all variables affecting the unemployment situation changed both in the same direction and by the same magnitude in the cities as they did in the State, overall. With regard to this assumption, we offer several qualifications to our 1976 calculations and, hopefully, shed additional insight into the true extent of unemployment within the cities.

During the period from 1970 to 1976, total State population increased by 2.34%. This growth was composed of a shift towards a population of an older age composition. In particular, the age group of 0-14 years old decreased by 8.82%, while 15-64 years of age increased by 8.45% and 65 years and older increased by 8.80%. During this same span of time, the State's civilian labor force rose by 11.25%. This expansion was due, in part, to the positive increment in population within the ages most likely to be participating in the labor force, as well as, to a substantial rise in participation by both women and youths.

The corresponding changes of urban population during 1970 to 1976 are inversely related to State changes. Cities experienced a reduction in population by 7.43% and central cities' population decreased by 6.99%. It is logical to assume that since city population declined, as opposed to the increase in State population, the civilian labor force of the two city classifications either did not increase to the same extent as that of the State, or in fact, decreased.

To arrive at the 1976 urban estimates, it was assumed that the civilian labor force of the urban categories grew at approximately the same rate as the State's. However, with consideration of the above population trends, we conclude that such an estimating technique overstates the actual degree of unemployment in urban areas. If, in fact, the civilian labor force in the city categories decreased or grew at a slower rate than the State's then the numbers of city unemployed might be smaller than calculated. However, the effect that these population trends would have upon the city unemployment rates is indeterminable.

There are several additional conditions that could have an effect upon urban unemployment opposite to that of a declining overall population. They are as follow:

1. A gap of approximately ten percentage points exists between the population changes of State (+2.3%) and urban (−7.4%) locations. Assuming that all other things remained the same, then a logical supposition is the gap between changes in the civilian labor force of the State and urban areas is also ten percentage points. Since the State's labor force grew by 11.25%, the urban labor force might have increased by only 1%, thus essentially staying stable.

The State's rate of growth in the number of unemployed is probably an underestimate of the actual increase in unemployment in the cities. This statement is based upon observations of out-migration mainly by the middle class family and the exodus of business from the cities leaving behind the less employable with fewer job opportunities.

If both of the above assumptions pertaining to the 1976 city labor force and unemployment are correct, then the calculated urban unemployment rates from State growth indices under-

estimate the actual degree of city unemployment.*

2. It is reasonable to assume that urban areas have suffered a more severe economic deterioration, especially in terms of employment losses, than the State, as a whole. This assumption follows from the fact that many manufacturing and service-related industries have been moving away from the cities. The direct results from such an urban exodus are the increasing proportions that jobless, blue collar and service workers constitute of city unemployment. In reference to this phenomenon, the unemployment growth index for the State may actually be an underestimate of real urban unemployment change particularly with regard to blue collar and service workers. However, even if this has occurred, total unemployment numbers in the cities may not have increased in magnitude comparable to blue collar unemployment. It is possible that there has been an improvement in urban white collar employment, hence counteracting, to some extent, the additional blue collar unemployment.

3. The decline of city populations may partially be explained by a tendency towards outmigration. The significance of this factor lies with the determination of which social and economic groups dominate such a migration away from the cities. This population shift may largely be composed of the more "employable" types, e.g. those that are better educated and trained, those who have more skills and/or those who have acquired more job experience, hence the more mobile participants of the labor force. If this is the case, then it is the hardcore, chronically unemployed that remain in the cities. Therefore, the true rate of urban unemployment may exceed those calculated in the preceding two sections.

4. Increases in nonwhite population occurred during the time period from 1970 to 1976. The population expansion was particularly strong within the ages of 15-64. It may be assumed that since a greater percentage of nonwhites reside in urban areas than in other locations, such a growth of nonwhite population would add to the urban civilian labor force. Nonwhites endure higher unemployment, hence additional labor force participants may increase the number of unemployed, more so than the number of employed.

5. A similar increase in female population, both white and nonwhite, has occurred from 1970 to 1976. There is evidence of a corresponding influx of women into urban areas. Such an in-migration would add to the urban civilian labor force, and may have an analogous effect upon urban unemployment to the increase of nonwhite population.

6. The unemployment rates approximated for the cities are effected by the definition of unemployment. Only those who are actively seeking employment are included in the measurements of the unemployment. Those without work who do not meet this criterion are not considered within the labor force. Especially during the deep recession of 1974-75, the unavailability of jobs may have caused many workers to drop out of the labor force and join the ranks of the discouraged worker. The unemployment statistics would not count these people as unemployed, but nevertheless, they constitute a large group of persons without work and suffering from both economic and psychological deprivation. If we assume that females and nonwhites are more prone to become part of the discouraged worker syndrome, and that nonwhites, especially, are concentrated within the cities, then we may conclude that the estimates understate the true

---

* Assuming a stable urban labor force, the following urban unemployment rate relationships exist:

$$\text{1976 Urban estimate} = \frac{UU}{UL} \times \frac{SU}{SL} < \text{1976 Urban actual} = \frac{UU \times RU}{UL}$$

Where UU = 1970 Urban Unemployment Number
UL = 1970 Urban Labor Force
SU = rate of growth in State unemployment ('70-'76)
SL = rate of growth in State labor force ('70-'76)
RU = rate of growth in urban unemployment ('70-'76) with consideration of out-migration of employables and exodus of job opportunities.

value of city unemployment when those classified as discouraged are included as unemployed.

The foregoing statements afford additional knowledge to aid the evaluation of the 1976 urban employment/unemployment estimates. In light of these qualifications, it may be concluded that the 1976 urban figures probably underestimate the true extent to which city residents experience unemployment.

VIII

THE ECONOMIC BASIS OF URBAN CRIME IN NEW JERSEY*

Introduction

High crime rates continue to plague the nation's people, especially those who work or live in urban locations. Such increases have evoked pleas for improvements in the criminal justice system. To achieve this, either additional resources need to be allocated or a more efficient utilization of existing resources must be achieved. The cost to society of allotting more resources in the form of money, manpower, etc., is the value of foregone opportunities for which these resources might have been used. The goal of such a reallocation is to attain that degree of compliance with the rules of prescribed behavior that society believes it can afford.

This chapter provides an economic approach to criminal activity. Some economic and social determinants of crime are contained in Section I. These determining factors are evaluated in an empirical study of selected New Jersey municipalities in Section II. Finally, the conclusion reviews the results of this analysis and suggests the focus of future public policy in contending with this major social problem of crime.

I. An Economic Approach to Crime

A. Overview

The law enforcement system, through the effects of certainty and severity, acts as a deterrent to crime by altering criminal behavior. Specifically, the degree of certainty of apprehension is a function of the police system, and the certainty of conviction and severity of punishment are functions of the judicial system. Their effectiveness is determined by the prevailing state of technology and by the expenditures devoted to each phase of the criminal justice process. In terms of a cost-benefit analysis, as the effectiveness of this system improves, the perceived costs of engaging in illegitimate activities increase, given a constant state of economic opportunities and social attitudes.

The public must decide how scarce resources are to be designated among competing uses of police, courts, prisons, etc. These, in turn, will determine the probabilities of an offense being detected, the offenders being arrested and convicted, and the severity of the subsequent punishment in terms of size and form.** Society's efficiency goal is to maximize its return from such resource allocations, hence minimizing the social loss of income from criminal activity. This loss is the summation of damages caused by the offense, the costs of apprehension and conviction, and the costs of implementing punitive actions.

The criminal must also make a choice. It is argued in the economic literature that the criminal considers such factors as:

---

* Prepared by Wendy Lee, Office of Economic Policy.

** See: Gary Becker, "Crime and Punishment: An Economic Approach," *Journal of the Political Economy*, March/April 1978, pp. 169-217.

1. The benefits of legal versus illegal behavior:
   a. all potential opportunities of earning an income legitimately;
   b. the value of incomes offered by these earning opportunities;
   c. the value of the incomes offered by various illegitimate activities.
2. The risks involved with the commission of crime:
   a. the probability of apprehension and conviction from illegal acts;
   b. the possible punishment and its severity if convicted.
3. The losses incurred due to conviction:
   a. monetary penalties, e.g., fines;
   b. loss of income during time spent in prison;
   c. psychological disadvantages, e.g., feelings of social disapprobation;
   d. foregone opportunities of legitimate income because of one's acquired "ex-convict" label.*

In terms of an economic approach, "Persons become criminals not because their basic motivation differs from that of other persons, but because their benefits and costs differ."*

B. Determinants of the Crime Rate

The crime rate is directly related to the relative benefits of a criminal activity and inversely related to the relative costs of such behavior. Society, through public policies, can influence the magnitude of both the costs incurred by the criminal and the benefits available to him. The commission of illegal acts is also affected by a number of socio-economic variables. The postulated relationships between the determinants and the subsequent crime rate are as follows:

1. It can be expected that the greater the amount spent for judicial proceedings (court expenditures), the lower will be the crime rate. Such spending raises the costs of illegal activity by increasing the risks of conviction.
2. Income and income distribution have several effects upon crime. The more unequal the income distribution is within a defined area, the higher the crime rate should be. This is because the greater the percentage of persons below some poverty level *and* the greater the percentage of persons above some income average, the greater the number of both prospective criminals and victims. It may also be presumed that the lower the income of an individual, the lower are the potential losses from illegal behavior.
3. Unemployment tends to alter short- and long-term anticipated income and disrupts consumption patterns. These, in turn, can lead to increases in fears, anxieties, frustrations and anti-social behavior which may precipitate acts of crime. Hence, the unemployment rate should be directly related to the crime rate.
4. The labor force participation rate (civilian labor force divided by the noninstitutional population) of male youths, ages eighteen to twenty-four, can be expected to be negatively associated with the crime rate. The greater the participation in employment activities by this crime-prone age group, the less likely it is that they would feel economic and/or social deprivation which may result in criminal behavior.
5. Population density is presumably positively correlated with crime. Density increases as an area becomes more urbanized. In conjunction with this move towards urbanization, increases in personal anonymity occur. The potential criminal may thus perceive the risk of detection as being reduced. In highly populated areas the number of potential victims of crime also increases. The criminal has both more human and commercial enterprise targets.

* See: Gary Becker, *op. cit.*

Nevertheless, it is not absolutely clear whether more densely populated areas experience more or less crime. High density means that there are more possible witnesses to crime, hence improving the probability of both apprehension and conviction. Densely populated locations may also be small areas, in terms of space. Police may more rapidly arrive at the scene of a crime, thus enabling them to apprehend the criminal more frequently.

6. Since nonwhites endure generally poorer economic conditions, we would expect higher crime rates in areas where high concentrations of nonwhites reside.

7. The greater the amount of resources devoted to police services, both in terms of money and manpower, the lower the subsequent crime should be because of the increasing risk of apprehension. However, several previous studies have found a direct, and not an inverse relationship between police expenditures and crime rates. The magnitude of crime, itself, has an impact upon the allotment of resources to police. Specifically, as criminal activity increases, resources allocated to law enforcement will increase as well, hence the positive relationship.

8. It may be anticipated that expenditures for education, health, recreation, welfare and the like will reduce the incentives to commit crimes. In effect the costs of illegal actions are increased due to the provision of greater legitimate benefits. Thus, such spending should be inversely related to crime.

9. The higher the level of educational attainment, the greater are the opportunities for legitimate earning activities and the lesser the probability of criminal behavior.

10. The percentage of fourteen to seventeen year olds attending school is expected to be negatively correlated with crime. This variable is the inverse of the school dropout rate. It is assumed that dropouts have fewer legitimate economic opportunities and that the frustration they may feel could manifest itself in criminality.

11. The percentage of persons over age sixty-five may exert two influences upon the crime rate. In particular, as this percentage increases, the number of possible crime victims increases. However, senior citizens are less likely to participate in criminal activities. As they increase, relative to the overall population, the potential of the community to produce criminals becomes smaller.

II. An Empirical Analysis of Crime in New Jersey Municipalities

The following study deals with a sample of twenty-five cities* in New Jersey for which 1970 data have been collected on municipal expenditures, demographic variables and economic conditions which may have an impact upon crime. These statistics were used to estimate relationships between the crime rates and the socioeconomic characteristics of the population. Both violent and nonviolent crime rates** were studied separately. This distinction is necessary because the effects of the socioeconomic (explanatory) variables may differ between these two crime categories. The two equations which were chosen as those with the most statistically significant results are listed in Table 8.1.†

The percentage of nonwhites in the population was found to be positively and significantly correlated with nonviolent crime (refers to equation 1, Table 8.1). This relationship confirms the expectation of higher crime rates in

---

* For a list of municipalities included and the crime rates in 1970 and 1976, see the Appendix to this chapter.

** Violent crimes include: murder, forcible rape, robbery, and aggravated assault. Nonviolent crimes include: burglary, larceny/theft, and motor vehicle theft.

† The significance test means that with a certain degree of probability (say 95 or 99 percent) we can state that the obtained numerical relationship (in this case between a socioeconomic variable and the crime rate) cannot be a result of mere change and therefore reflects the true relationship. Variables 7, 8, 9, 10, and 11 discussed above were not included in these regression results. Problems of multicollinerity prevented the isolation of separate effects of their variables.

TABLE 8.1
REGRESSION EQUATIONS FOR VIOLENT AND NONVIOLENT CRIME RATES IN NEW JERSEY, 1970*

	Percent of nonwhite population (1)	Per Capita court expenditures (2)	Percent of families with income above $15,000 (3)	Unemployment rate (percent of labor force) (4)	Labor force participation by males age 18-24 (5)	Population per square mile (6)	Constant (7)	R^2 (8)
Equation 1: Nonviolent Crime Rate	+87.65 (5.18)**	−1374.99 (−1.77)†	−102.59 (−2.48)†	+443.89 (1.90)†	−103.51 (−2.83)**	−0.06 (−2.56)**	13025.8 (3.52)**	0.8485
Equation 2: Violent Crime Rate	+18.69 (7.36)**	−55.97 (−0.48)	−15.97 (−2.58)**	+19.64 (0.56)	−9.88 (−.80)	−0.002 (0.41)	1170.19 (2.11)†	0.8761

* The numbers directly under the headings are the estimated regression coefficients; figures in the parentheses are t statistics, measuring the statistical significance of the variables. R^2 measures the portion of the variance in crime rates that is accounted for by the variance of the explanatory variables.

** Significant at 0.01.

† Significant at 0.05.

areas where nonwhites are more concentrated. Such results contain several implications. It is possible that this high correlation can be ascribed to the poor economic conditions prevailing in many nonwhite neighborhoods. Specifically, nonwhites are more likely to be either unemployed or defined as a discouraged worker.* If a nonwhite is employed, the individual's income may be less than or equivalent to the poverty level. These characteristics are an indication of economic need and enhance the tendency towards criminal behavior. The positive relationship may also indicate that nonwhite neighborhoods are more frequently victimized by crime.

Court expenditures per capita were used as an approximation of the certainty and severity of conviction. This variable, as hypothesized, was inversely related to the nonviolent crime rate. The significance of court spending as a crime determinant was relatively low. This suggests that criminals perceive higher costs of nonviolent illegal activity as court expenditures increase, but that the impact of such spending is minimal in regard to their ultimate decision to pursue such behavior.

The effect of income is estimated by the percentage of families with salaries exceeding fifteen thousand dollars annually. This variable was negatively associated with nonviolent crime, as had been postulated and was strongly significant. These results demonstrate that wealthier persons are less likely to engage in criminal acts because the possible losses incurred due to apprehension and conviction are greater.

As anticipated, the unemployment rate was positively and significantly correlated with the nonviolent crime rate. Rising unemployment thus leads to more nonviolent crimes, which are frequently motivated by feelings of economic deprivation.

In addition to unemployment, the labor force participation rate of male youths was found to be inversely and significantly related to nonviolent crimes, as expected. Males in this age group are more likely to commit crimes than other age or sex groupings. The labor force participation rate may approximate a mental attitude towards legitimate endeavors. Youths within the labor market have a feeling of greater social mobility and are thus less likely to feel the frustration of the discouraged worker. Con-

* Discouraged workers are defined as those people who have been unable to obtain employment and/or who anticipate a low probability of finding a job, and thus have dropped out of the labor market.

versely, it may be assumed that as participation rates decline, a greater number of male youths have become discouraged and have chosen illegal pursuits as a more feasible means to beneficial gains.

Contrary to the presumed direction of association, population density was negatively correlated with nonviolent crimes. A number of plausible explanations may account for this seemingly perverse relationship. First, a densely populated municipality may be indicative of a small geographic region. If this is true, then the city would be a smaller area for police to patrol. Police effectiveness at apprehension may thus be greater and the prospective criminal would anticipate higher costs with regard to illegitimate behavior. Secondly, a more dense population implies more potential witnesses, consequently, the criminal perceives a greater risk factor. Finally, high density suggests urbanization which may, in turn, imply the existence of slum areas. The residents of such areas may be reluctant to report crimes and/or when such crimes are reported the value of the property loss may be of insufficient value to be included in the police crime records. Both of these factors would lower the number of reported nonviolent crimes.

The violent crime rate equation did not yield results as significant as those in equation 1 although the directions of correlations between the socio-economic determinants and crime are the same as in equation 1. Again, violent crime and density were inversely related. Unlike equation 1, however, only two of these independent variables were statistically significantly related to the violent crime rate—the percentage of families with an annual income above fifteen thousand and the percentage of nonwhites. It can be concluded that the socio-economic variables which have been selected for this equation do not adequately explain variations in violent crimes. Other non-economic aspects of the population, which are perhaps not quantifiable, are responsible for such variations.

Table 8.2 contains the elasticity values for each of the independent variables in equations 1 and 2. These numbers measure the magnitude of change in either of the two crime rates which would occur due to a change in one of the explanatory variables. The higher the elasticity, the greater the subsequent change in the crime rate.

As shown by Table 8.2, the labor force participation rate of male youths has the largest effect upon both the violent and nonviolent crime rates, whereas the population density has the smallest effect. One variable which could have a substantial impact upon crime and can be directly affected by public policies is the unemployment rate. Especially in the case of nonviolent crimes, the elasticity indicates that a 10%

TABLE 8.2

ELASTICITY VALUES OF THE EXPLANATORY VARIABLES*

Explanatory Variables	Nonviolent Crime Rate	Violent Crime Rate
(1) Per capita court expenditures	—0.34	—0.14
(2) Per cent of families with income above $15,000	—0.49	—0.75
(3) Unemployment rate (% of labor force)	0.46	0.20
(4) Labor force participation by males, (age 18-24)	—1.64	—1.53
(5) Population per square mile	—0.19	—0.07
(6) Percent of nonwhite population ..	0.40	0.84

* Elasticity values measure the sensitivity of percentage changes in the crime rates to percentage changes in the explanatory variables.

decrease in the unemployment rate (see row 3, Table 8.2) would result in a 4.6% decline in these crime rates. A 10% increase in a male youth labor participation (row 4) would result in a reduction of nonviolent crimes by 16.4%, whereas the same increase in court spendings (row 1) would cause the nonviolent crime rate to decrease by only 3.4%.

Conclusion

In light of these elasticities, it is reasonable to assume that public programs aimed at increasing labor force participation and decreasing unemployment would be a very effective means for achieving a lower degree of crime, particularly nonviolent criminal activities. Such behavior is frequently motivated by economic deprivation and can be discouraged by improving these conditions.

The overall results of the two linear equations point to some important aspects of crime within New Jersey's cities and demonstrate that economic factors are important determinants of crime especially those of a nonviolent nature. Society's attack on crime must entail both law enforcement expenditures and programs aimed at improving social and economic environments. These results suggest the biggest gains in terms of reduced crime rates would be obtained by public policies that improve the economic conditions of urban areas.

APPENDIX TO CHAPTER VIII

**Crime Rates in New Jersey Municipalities, 1970 and 1976*
(per 100,000 population)**

Municipalities	Nonviolent Crime Rate		Violent Crime Rate	
	1970	1976	1970	1976
Atlantic City	13,038.3	10,053.9	1,063.5	1,444.3
Bayonne	1,534.2	2,971.0	59.1	168.8
Belleville	1,899.4	3,786.8	54.8	169.6
Bloomfield	2,644.7	3,725.2	59.6	141.8
Camden	7,560.1	8,278.7	994.6	1,583.5
Clifton	2,252.6	3,951.6	65.5	198.1
East Orange	5,395.4	7,932.5	832.1	1,437.3
Elizabeth	5,523.1	6,882.3	556.6	873.7
Hoboken	3,697.7	3,594.8	517.8	470.9
Irvington	4,244.8	5,342.3	267.8	653.9
Jersey City	2,842.1	5,905.9	501.3	998.3
Kearny	2,982.6	3,726.1	101.1	112.8
Linden	3,752.8	4,107.3	164.2	218.4
Montclair	2,688.3	4,659.5	140.8	212.0
Newark	7,958.1	7,471.9	1,891.1	1,787.0
New Brunswick	8,234.5	9,513.9	895.3	1,016.6
Passaic	4,938.0	8,567.6	649.4	882.9
Paterson	5,014.4	6,764.1	680.8	1,234.2
Perth Amboy	3,136.8	4,137.3	206.2	415.0
Plainfield	7,236.1	9,185.6	650.8	861.2
Trenton	7,719.0	7,842.7	920.3	1,237.6
Union City	2,830.7	5,112.9	136.7	361.4
Vineland	3,137.2	6,652.3	166.7	236.6
West New York	2,212.8	3,621.8	34.5	179.9
West Orange	1,740.8	3,471.7	36.6	75.7

* SOURCE: State of New Jersey Uniform Crime Reports, Division of State Police, Uniform Crime Reporting Unit, 1970 and 1976.

IX

COMMENTS ON THE PRESIDENT'S URBAN PROGRAM*

The economic revitalization of New Jersey's cities depends, in part, upon State discretion in the utilization of President Carter's urban policy. The State should find the most efficient and effective ways to use the additional assistance for urban revitalization. The significance of the President's policy elements for State urban revitalization is briefly examined in this Chapter. The criteria considered are the amount of private sector leverage expected to be induced in the long-run, the probable effectiveness of the program in assuaging urban related inefficiencies and inequities (e.g., youth employment), and the size of the federal resource commitment.**

General Comments

In his urban policy, the President largely focuses upon the problems rather than the causes of urban deterioration, giving more emphasis to explicit, high visibility, near-term fiscal remedies than to long-term economic development antidotes. Notably, the President gives little attention to the more implicit influences of federal government policies upon intra-metropolitan business and household locational incentives. The President does propose a number of initiatives aimed at easing long-term unemployment in cities and inducing private urban investment. The effectiveness of those initiatives in reviving the economies of New Jersey's major cities, however, will be significantly reduced without Presidential actions to alter those existing policies which benefit suburbs at city expense.

One method for assaying Presidential urban policy priorities is through the commitment of new federal funds. Two-thirds of the new funds requested by the President are for stimulation of urban employment and private investment, and one-fifth is to provide fiscal relief to hard-pressed communities. Nearly one-half of the remaining funds are to improve the urban physical, cultural and aesthetic environments, with the other half divided among social and health services, incentives to states, and voluntary associations. Policies specifically intended to increase access to opportunity for those disadvantaged by a history of discrimination and for improving coordination of existing federal programs received no significant commitment of new funds.

Urban Employment and Private Investment

From the perspective of New Jersey's cities the President has correctly given top priority to employment and investment. The President has

---

* Prepared by Dr. John E. Stapleford, Office of Economic Policy.

** See Table 1 for a brief description of the major elements currently included in the President's Urban Policy.

TABLE 9.1

MAJOR ELEMENTS OF PRESIDENT CARTER'S URBAN POLICY

Program Title	*Funding*	*Summary of Major Provisions*
National Development Bank	$17.4 billion in guarantees, subsidies, loans and grants over three years	Will provide loan guarantees, interest rate subsidies, grants, taxable development bonds and a liquidity function to encourage business to remain, expand or locate in economically distressed urban and rural areas.
Targeted Employment Tax Credit	At least $1.5 billion in the first year	Tax credit available to employers of young persons aged 18-24 who are from low-income households and handicapped individuals who are referred from vocational rehabilitation programs. The amounts of the credit will be one-third of the employee's wages up to a maximum credit of $2,000 for the first year of employment and one-fourth of those wages up to $1,500 for the second year.
Labor Intensive Public Works	$3 billion over three years	To provide private sector jobs for the long-term unemployed in local public works. At least half of all jobs created in each area must go to the long-term unemployed.
Supplemental Fiscal Assistance	$1 billion annually for two years	To aid local governments experiencing significant fiscal strain from high unemployment or disproportionately slow growth in employment, population and per capita income.
Welfare Reform Fiscal Relief	$500 million in first year	Proposed that the fiscal relief component of the Better Jobs and Income Act be phased in as soon as Congress passes this legislation, rather than in 1981 as originally planned. Local jurisdictions would benefit from the fiscal relief payments since states would pass savings on to them in proportion to the amount they contribute to costs of the aid to families with dependent children's program.
Private Sector CETA	$400 million a year	To encourage private employers to hire and train long-term unemployed and low-income individuals. The Program will be operated jointly by CETA prime sponsors and locally formed Private Industry Councils composed of representatives of large and small businesses and organized labor. The enabling legislation is Title VII of the Comprehensive Employment and Training Act (CETA).
Differential Investment Tax Credit	$400 million in credit annually	Will provide an additional investment credit of five percent, beyond the 10 percent credit of current law, for certain industrial investments in distressed areas. This additional credit will be allowed for those investments or portions of an investment for which the Department of Commerce has issued a "certificate of necessity."
Section 312 Housing Rehabilitation	$275 million annually for two years	Will permit an expanded effort in neighborhood revitalization of single and multi-family housing in selected neighborhoods through rehabilitation loans and a strengthening of HUD's urban homesteading program. While there is no income limitation, the interest rate will be on a sliding scale from 3% up to market rates.
State Incentive Grants	$200 million annually for two years	Funds will be used to make grants to states which qualify to assist in the implementation and execution of State Community Conservation and Development Strategies. These state strategies are to include two major components: a fiscal and governmental reform strategy, and a public investment strategy for community and economic development. The major objectives of these incentive grants are: to improve the fiscal capacity of distressed or declining communities; to reduce fiscal disparities among jurisdictions within each state; and to provide greater housing and employment opportunities.
Urban Intermodal Transit	$200 million annually	To provide inter-modal transportation project funding to cities. Projects to be focused upon transportation terminals/centers with funds also used to integrate private sector investment and facilities in and around such centers.
Urban Parks and Recreation	$150 million annually for five years	Challenge matching grants will be provided to local jurisdictions to encourage revitalization and rehabilitation of urban recreation systems. A 25% additional match is included as a dollar-for-dollar incentive for state matching contributions to a project.

divided employment funds about equally between the public (Labor Intensive Public Works Program; CETA reauthorization) and private (Targeted Employment Tax Credit; Private Business CETA Program) sectors. The Labor Intensive Public Works Program targets $3 billion over three years for private and public jobs for the long-term unemployed in public works construction and the improvement of public services. The Comprehensive Employment and Training Act (CETA) similarly provides job training and public employment for economically disadvantaged, unemployed and underemployed individuals. Under a recent reauthorization proposal CETA would be expanded to include hiring by private businesses. The Targeted Employment Tax Credit would allow a maximum credit of $3500 per employee over two years to employers of young persons aged 18-24 who are from low-income households or are handicapped.

Both public service employment and private sector employment subsidies are far less expensive than employment gains achieved through fiscal mechanisms, such as a tax cut. Without careful State management, the value of the private sector output, however, may be expected to exceed the public sector output and the value of the acquired labor skills will likely be higher in a private sector program. Moreover, the small private sector tax subsidy may encourage businesses to undertake only limited manpower training. Most likely both sectors will hire the most qualified of the long-term unemployed and little progress will be made toward breaking the back of urban structural unemployment.

This does not have to happen. As recommended in previous years by the Economic Policy Council, the State may train individuals entering public employment programs for non "dead end" jobs such as teacher's assistants and nurses aides. The improved public services may be those which are most critical to the attraction of firms and middle-upper income residents into the city. The State can also work with firms participating in the employment programs and with the private industry councils to encourage placement in skilled positions. Supplementary training assistance through community colleges and vocational schools could be offered to firms by the State.

Decline of investment activity, rather than migration of firms, is the major cause of city employment losses. As currently proposed the National Development Bank (NDB) has the potential to be the most effective of the President's urban revitalization tools. The NDB will be an independent agency under the direction of the President of the United States. The NDB governing board will consist of the Secretaries of Commerce, Housing and Urban Development, and the Treasury. In this manner it is believed the activities of the NDB, which include loan guarantees, interest rate subsidies, grants, taxable development bond issues and private loan purchases, will be kept in concert with the activities of these three federal agencies in distressed areas.

The success of the NDB in New Jersey will vary inversely with the geographical limitations imposed by the NDB Act and directly with the accountability required and the entrepreneural skills of local development authorities (particularly local governments). Geographical areas will qualify for NDB assistance if they experience three out of the four following circumstances: unemployment rates above and population, employment, and per capita income growth rates below the national averages over the past five years. In addition, areas that have per capita incomes which exceed the national average by more than 125 percent will not be eligible. Under these guidelines over fifty-six percent of New Jersey's citizens reside in eligible areas. Although in terms of socio-economic characteristics it is difficult to distinguish central city from non-central city jurisdictions in many of New Jersey's metropolitan regions, such widespread eligibility for NDB business incentives will certainly diminish its usefulness as a city revitalization mechanism.

Aside from the grants function, the NDB must set forth in writing the reasons for approving a

project to include evidence that: (a) the project would not have been undertaken in the distressed area without NDB assistance; (b) the project will provide employment opportunities (particularly to long-term unemployed or low-income residents); (c) the project will make a contribution to the area's economy and tax base and (d) the project will not facilitate employment relocation which will have a significant adverse impact upon the economic base of another area. The bank may also consider the extent to which the project expands minority business opportunities and is commensurate with other economic development efforts in the area, with the area's labor force and with the area's public service capacity. In addition, the Local Development Authority must then report in writing to the NDB at least once every third year upon the project's continuing satisfaction of these approved criteria.

If the NDB adheres to these project review requirements accountability to the legislative objectives should result. The follow-up reviews, often omitted from federal programs, should be especially helpful in minimizing abuses. The benefits from accountability, however, come at a price. That price is the paperwork and manpower which will have to be committed to project application and compliance procedures.

The entrepreneurial abilities of the local development authorities and the State will be a critical factor in marketing the NDB programs. With complete knowledge of regulations and lines of communication to NDB officials, the local development authorities and the State can drastically increase the awareness and lower the costs and frustrations incurred by firms and individuals applying or eligible for NDB programs. Otherwise, without the assistance of public specialists, firms and individuals may view the program requirements as overwhelming and the potential investments will not occur.

Current research has questioned the projections of new employment claimed in the applications for industrial development bonds in New Jersey.* The potential gains for cities from the President's proposal (Small Issue Industrial Development Bonds) to increase the financing limit for a project from $5 to $10 million will be contingent upon the restriction of projects to economically distressed urban and rural areas. The overall potential employment loss to the State from the restriction may not be significant as many suburban firms will go forward with investment plans without the subsidy. The stimulation of employment in the cities, no matter how minor, means a concomitant reduction in fiscal disparities among the State's municipalities and possible reductions in public expenditures on welfare and social services.

Investment tax credits, being one time subsidies, have no appreciable influence upon firms' capital improvement and expansion decisions. The additional five percent credit offered in the President's program (Differential Investment Tax Credit) is not sufficient to alter investment decisions. The requirement that firms obtain "certificates of necessity" serves to weaken the investment inducement.

There is a danger that increased federal procurements in urban areas as proposed by the President will turn into inefficient transfers. If subsidies or grants are to be given to city firms, the money should be used directly as a locational inducement to those activities which are competitive. Firms which can more efficiently supply federal procurement requirements should not be penalized and taxpayers should not be forced to accept anything less than the most competitive product. Government should not induce firms into acquiring inefficient resource management practices because withdrawal of government contracts may then result in rapid failure.

Considering the static level of federal employment in recent years, the President's commitment to location of new federal facilities in declining cities may provide scant assistance for New Jersey cities. Moreover, as with most state and local government jobs, the urban location of the fa-

* Don DeMaio, "Onward and Upward with the EDA," in *New Jersey Magazine*, April, 1978, p. 6.

cility does not prevent the bulk of the wages from being exported by commuters to the suburbs.

Federal Policies and Locational Incentives

The critical long-term urban revitalization issue is whether government policies will continue to erode the potential comparative cost advantages of the cities, thereby increasing suburban location incentives. The President has recognized some of the federal policy impacts in his urban program by requesting:

- Federalization of welfare programs.
- Elimination of incentives for suburban sprawl through confinement of federal water and sewer grants to new infrastructure development.
- Denial of community development block grants to suburban communities unwilling to provide subsidized housing opportunities.

The President has not, however, addressed such major urban issues as:

- Unequal federal tax treatment of housing expenditures by owner-occupants and tenants (property taxes and interest deductions).
- Federal accelerated depreciation allowances which lower the cost of new physical capital relative to the purchase and/or renovation of older plants, rental properties or used equipment.
- Relief to small firms from excessive federal regulatory requirements.
- Federal transportation regulations and highway policies which subsidize suburban and rural service.
- The lack of spatial differentiation in utility prices which subsidize low density areas and ceilings on petroleum product prices which subsidize suburban sprawl by lowering automobile and truck operating costs.

To assure the long-term revitalization of New Jersey's cities the State should continue to urge federal action in implicit policy issues such as those listed above.

Local Fiscal Relief

Cities are rapidly becoming the form of government least dependent upon their own resources. In 1962 cities received about $0.26 in outside moneys for every dollar of own source revenue. By 1975 this has risen to $0.65 per dollar. The federal contribution over this period rose from $0.05 to $0.19.* By comparison, in FY 1976 New Jersey's Big Six cities received approximately $1.43 in outside funds for every dollar of own source revenue and the federal contribution was a phenomenal $1.31 per own source dollar.**

In his urban package, the President has extended cyclical assistance under the title of Supplementary Fiscal Assistance, a program of direct fiscal aid to local governments. In addition, excluding the National Development Bank proposal, the majority of the President's urban package is composed of loose categorical and block grants with very minor or zero local government matching requirements. Minimal (or zero) local matching requirements lower the price of federal grants and encourage local citizen indifference and nondiscriminant grant consumption by cities. If past experience is any guide, municipal officials will, for the most part, use the loose categorical or block grants for fiscal relief rather than more permanent investments in economic development. Together with supplementary fiscal assistance this shifts the emphasis of the President's program from maximum leverage of private economic activity to direct public dollar expenditures.

Other consequences of the infusion of outside revenues into New Jersey's cities may include:

- Progressive reduction of local control over both revenues and expenditures.

---

* John Shannon and John Ross, "Cities: Their Increasing Dependence on State and Federal Aid," in Bryce, *Small Cities in Transitions: The Dynamics of Growth and Decline*, Ballinger Co., Cambridge, Mass., 1977, p. 192.

** George Nagle, "Urban Revitalization and Fiscal Problems," in Chapter V of this *Report*.

- Disproportionate city expenditures on social services and other federal service priorities at the expense of more traditional local services.
- A decrease in incentives to local government to seek fiscal relief through growth in government productivity.

The economic deterioration of New Jersey's cities is not a consequence but a cause of local fiscal strain. Priority should be given by the State to seeking local fiscal relief through economic revitalization, increased local government productivity (with State technical assistance) and assumption at the State and regional levels of the costs of predominantly redistributive services such as welfare, public housing, health care and education.

State Incentives

The economies of cities are extremely complex, diverse and marked by a high degree of interdependency. The State needs to expand its manpower and research commitments to the development of a notable urban policy. The State will then be able to compete more successfully for an incentive grant under the President's program. New Jersey has already instituted many of the strategies suggested by the incentive program and by following the federal lead specified in the incentive program legislation grant money will be obtained. Since the incentive program is only two years in duration, care must be taken not to use the moneys to create local obligations which cannot be maintained after the grant's termination (e.g., reduction of interjurisdictional fiscal disparities). One potentially effective use of any grant moneys obtained would be to assist local governments in distressed areas in formulating comprehensive economic development plans.

The Urban Residential Sector

By linking community development block grants to subsidized housing opportunities the President has attempted to induce the dispersion of the low-income households concentrated in the cities. With metropolitan area work trips averaging thirty minutes, growth in city employment alone may do little to attract middle and upper income households back to the cities. Increases in personal and property safety and public education quality are essential to the revival of the city's residential sector.

Given the large spillovers in public education and the long-run tax returns to the federal government per year of educational achievement, federal funding for public education seems rational. More important, given the impact of public education quality on the deterioration of the urban middle and upper class residential sectors, federal incentives for State takeover and for transfers of educational resources to urban districts is sound urban revitalization policy. The President's financial commitment to urban education is minor and includes no new initiatives, leaving cities to receive their normal share of a 30% increase in federal aid to education. The President's commitment will have scant impact on this important city problem.

Other than to reauthorize the law enforcement assistance administration the President makes no significant fiscal commitments to reducing either urban crime rates or the perceptions of urban crime.

Coordination

While the President's urban policy is comprehensive in scope, the coordination among program elements and participating agents is not ideal. There is no consistency in the role assigned to the states. In some instances, the states function as moderators, receiving federal funds and then distributing the funds to local governments (e.g., urban social services). In other programs, most of which are sponsored by the Department of Housing and Urban Development, the federal government completely by-passes the states and deals directly with local governments (e.g., HUD Community Self-help, National Development Bank).

The states are in a better position than the federal government to evaluate competing local demands, local economic conditions, and collective (statewide) priorities. Federal programs which by-pass the states discount states' knowledge and overlook the interdependencies between local, metropolitan and state economies. Cities and even neighborhoods within cities may independently initiate projects which foster detrimental inter and intrajurisdictional shifts in households and firms. Furthermore, cities and communities who are in disagreement with federal fund allocations may have less likelihood of successful recourse through Congressmen or federal bureaucrats than through state legislators and officials.

Expenditure accountability requirements do little to enhance state and local government coordination. In many instances (e.g., community development block grants) local governments do not have to report on the use of funds to the State nor report in great detail to the federal government. Thus states may not only be bypassed in the initiations of local programs, states may not even be fully informed on the level of local economic development efforts.

Local jurisdictions are legal creations of the State. As an initial step for improving urban program coordination the State might require the specification of comprehensive local economic development plans congruent with State and Regional (CONEG) economic development objectives. While this would not reduce direct federal access to a local jurisdiction, it would help direct the jurisdiction toward federal programs which would complement rather than duplicate the efforts of the State and other local jurisdictions.

Summary

President Carter's urban policy is a step beyond the Great Society programs of the 1960s in recognizing that social goals are best achieved with appeals made to the self-interest rather than the benevolence of individuals and firms. Proposals like the National Development Bank, the Targeted Employment Tax Credit and the Community Investment Fund are designed to leverage private economic activity through limited commitments of public funds. Revision of federal policies in areas such as welfare, water and sewer infrastructure construction and suburban subsidized housing commitments will generally lower the costs of living and working in the cities relative to the suburbs. Continued pressure from the states and mayors will hopefully lead to other important federal policy revisions including the tax treatment of housing expenditures, accelerated depreciation allowances, transportation regulations, highway financing and utility pricing.

The two major public sector elements in this President's Urban Policy are the Labor Intensive Public Works Program (LIPW) and Supplemental Fiscal Assistance. With careful state and local management LIPW may provide opportunities for long-term unemployed or disadvantaged individuals to acquire marketable labor skills. Supplemental Fiscal Assistance will relieve some immediate fiscal pressures but will do little to strengthen the urban tax base. Increased local government productivity, statewide financing of predominantly redistributive services, and economic revitalization efforts will do far more to genuinely improve the fiscal posture of the cities.

The major omission from the President's urban policy is a program designed to attract middle and upper income residents into the cities. As William Baumol stated when he was chairman of the Economic Policy Council:*

> "Middle and upper income groups should be re-attracted to the cities since the presence of these groups increases employment opportunities for lower income residents, both because the middle class is a source of demand for their services and because the middle classes provide the skilled manpower necessary in so many types of business enter-

* William J. Baumol, "Guidelines for a State Program for the Cities," *4th Annual Report* of the Economic Policy Council, May 1971, p. 22.

prise. These groups also constitute the tax base without which it is impossible to maintain the quality of public services, and their presence automatically serves to improve neighborhoods and the education system."

The President's commitment in the areas of urban safety and public education are minimal considering their importance to middle and upper income households.

Aside from a handful of automatic revenue distribution programs such as Supplemental Fiscal Assistance, the financial resources accruing to New Jersey from the President's urban package will depend upon the initiative and entrepreneurship of the State and local governments. Subsidies available through programs like the National Development Bank and Targeted Employment Tax Credits must be marketed by government among business firms and citizens. Thorough understanding of regulations and well-maintained lines of communication to Washington by the State and local governments will reduce program entry costs and the discouraging time delays which turn many firms and citizens away from public programs. Most important, for federal assistance to be effective in stimulating New Jersey's cities toward self-rejuvenation the assistance must be coordinated with a comprehensive State and local urban economic development strategy.

X

MOBILIZING CAPITAL: THE NATIONAL DEVELOPMENT BANK*

Introduction

Although the economic and industrial bases of many American cities have been on the decline for a number of years, it has been only recently that issues in economic development have become the number one priority of American urban policies.

The causes of the urban economic decline are many: high taxes, aging industrial plants, deteriorating municipal infrastructure and crime. The result is that many industries are locating their facilities in suburban areas. This trend plus an awareness that traditional governmental incentives like tax abatement and manpower training are of limited value in attracting or retaining firms, have led to an examination of other types of incentives which may be more useful in attracting or retaining firms in the urban area.

One innovation being discussed is the creation of a national development bank. This bank would, through the use of its own funds and funds from external sources, attempt to encourage the creation, expansion or retention of firms contributing to the stability of an urban area. Proponents of development banking view the concept as potentially useful in mobilizing and chaneling public and private resources to depressed urban areas. The bank, because it is a quasi-public institution could also serve as a forum from which to bridge the gaps between the government and private sectors.

Although the concept of creating some sort of development banking facility has gained political popularity, there is little consensus on how the bank should operate.**

The President's Urban and Regional Policy Group has recommended the creation of an urban development bank which would make direct investments in the economic development of distressed cities. Congressman Badillo has proposed an urban development bank with a broad range of functions including housing, job creation and economic development. Two other proposals, the Humphrey-Moorhead and Minish bills call for the creation of a national development bank which would service both urban and rural areas. A proposal by Congressman Harrington would create ten regional development banks to service the problems of regional areas in the United States.

Interest in development banking has not been limited to the national level however. Massachusetts has created a Community Development Finance Corporation to provide capital for industrial expansion and relocation in depressed areas of the state. Other states are now begin-

---

* Prepared by William E. Parshall, Center for New Jersey Affairs, Woodrow Wilson School for Public and International Affairs, Princeton.

** This paper was written before the National Development Bank Act of 1978 (S. 3233) was introduced in the U.S. Senate.

ning to show an interest in establishing their own development banking facilities.

Regardless of whether the development bank is operated at a national, regional or state level, the concept of development banking raises the same difficult but important policy questions. Perhaps the most important question revolves around the role of public investment in the private marketplace: Are there unmet needs in the private marketplace which require some sort of public intervention to fill them? If so, what are they and what kinds of public action might best fill these needs?

It is towards this task that this paper addresses itself. Only then can one consider how a development bank might actually operate. The list of functions which a development bank might perform is lengthy. For analytic purposes it is useful to separate these functions as follows:

1. Financing for Municipal Infrastructure
2. Small Business Loans
3. Economic Development Loans to Attract Private Firms
4. Land Acquisition
5. Equity Financing for Small and Medium-Sized Firms
6. Financing for Housing Construction

All six functions listed above are incorporated into one or more of the proposals now being considered by Congress.

For the purposes of this study, financing for housing construction will not be discussed. Providing jobs for the construction trades may be a legitimate goal but construction jobs tend to be seasonal and short-term in nature. Unless the bank is willing to commit sufficient resources on an annual basis to keep workers employed, this function might best be thought of as a countercyclical measure. The major focus of the development bank is to promote long-term economic development, not short-term job creation. Furthermore, there is already in place a broad range of institutions to deal with the problems of housing finance.

Development Banking and Public Infrastructure

One of the functions most frequently cited for a development bank is improving public infrastructure (e.g. roads, sewers, lighting). The Joint Economic Committee of Congress recently heard testimony claiming that existing federal grant programs were not suited to meet the long-term capital needs of cities. Too often federal grant funds were used to pay current expenses in city operating budgets.* Many cities deferred important capital expenditures simply to keep up with the large cost increases caused by inflation. As a result, some experts fear that in a few years municipal infrastructure will have deteriorated beyond repair. The net effect will be that older cities will lose their one competitive advantage over the suburbs and urban decline will continue.**

More recently, the Economic Development Administration (E.D.A.) provides both loans and grants to cities and rural areas for the purposes of improving public facilities. Since 1965 the E.D.A. has spent almost $2 billion on public works projects throughout the fifty states. Because of language in the enabling legislation E.D.A. has primarily been a rural-oriented agency, seeking to stimulate development in areas which have six percent or more unemployed. Until the 1970's, few cities qualified for E.D.A. assistance. Despite an increasing effort during the last few years by E.D.A. to attack the problems of development in older cities, skepticism remains whether or not E.D.A. can adequately perform this role.†

---

* U.S. Congress, Testimony Before the Joint Economic Committee, by Richard Nathan, Paul Dommel, James Fossett, reprinted in the *Congressional Record*, July 29, 1977, S. 13160-13163.

** Brookings Institution, *Round Table Discussion on Urban Development Banking*, Washington, D.C., March 21, 1977, p. 16.

† E.D.A. spent approximately $20 million in public works grants during fiscal year 1976 for projects in major cities. See also: Rochelle Stanfield, "An Urbank sounds good, but few can agree on what it should do", *National Journal*, September 17, 1977, p. 1452.

Community Development Block Grants, although they can be used for improving public facilities, have not always served that purpose. The Brookings study on Community Development Block Grants found that most activities were small scale improvement projects. Little attempt was made to use community development (C.D.) funds for long-term redevelopment. Uncertainty about continued C.D. funding and local political factors have led to the dispersal of C.D. funds throughout local neighborhoods.* Proponents of development banking cite the inadequacy of existing programs as a major reason for creating a new institution.

The Proposals

Two of the current development bank bills in Congress include provisions for assisting state and local governments in borrowing to meet infrastructure needs. The Humphrey-Moorhead bill authorizes the National Domestic Development Bank to buy or guarantee state or local government loans for public works. These loans may be guaranteed for up to forty years.**

Congressman Minish's National Development Bank proposal similarly allows the development bank to "make or guarantee loans to finance capital expenditures for public works and community facilities . . ."† Although both bills clearly anticipate a role for the development bank in providing assistance for municipal infrastructure, neither bill would make direct grants to municipalities nor would public infrastructure improvement be the sole or primary function of a development bank.

If the national development bank became an active participant in the improvement of municipal infrastructure, there are two ways in which it could perform this function.

First, it could act as an alternative borrowing source to the private municipal bond market. If a city could not place its bonds or did not like the terms which the private bond market offered, it could turn to the national development bank as an alternative source of financing. The bank would buy bonds from the city by borrowing at the U.S. government long-term rate. For cities unable to obtain financing the bank would guarantee that these cities could borrow to meet their capital needs. This arrangement might also provide a subsidy to the city if the interest rate offered by the private market was significantly higher than the government long-term rate.

A second, more restricted function the bank could serve is as a "backstop" for the municipal bond market when the market faces times of unusual stress. The development bank would intervene in cases similar to 1975 when the near default of New York City caused panic in the municipal bond market. However, the bank would not be required to lend to all cities or on a permanent basis. Following the stabilization of the bond market, cities might be required to repurchase their bonds from the bank for placement on the private market. In this capacity, the bank acts on a temporary basis only.‡

Municipal Bond Market Performance:

An Evaluation

One of the principal motivations for including municipal infrastructure as an activity of the development bank was the 1975 municipal bond crisis. However, the performance of the municipal bond market in 1977 was very good. Prime grade municipal bonds yielded a real rate of return of 6.4%, where as comparable long-term investments in federal government bonds, corporate bonds and common stocks yielded returns of 1.7%, 2.6% and –7.9% respectively. The quantity of bonds issued increased substantially from 1976.¶

---

* *Congressional Record*, July 29, 1977, S. 13161-2.

** U.S. Congress, Senate, "National Domestic Development Bank Bill", S. 1396, 95th Congress, 1st session, July 29, 1977.

† U.S. Congress, House, "National Development Bank Bill", H.R. 1683, 95th Congress, 1st session, January 11, 1977, p. 10.

‡ U.S. Congress, Joint Economic Committee, subcommittee on Economic Stabilization, opening statement of Representative William Moorhead at *Hearings on Capital Needs Faced by Local Government*, St. Paul, Minnesota, December 14, 1977, p. 3.

¶ John Allan, "The Star of '77: Municipal Bonds", *The New York Times*, January 1, 1978, Business and Finance Section, pp. 1, 9.

The improvement in the performance of the municipal bond market is due in large part to the improvement in the financial condition of most cities themselves. Most local governments incurred budget surpluses during the year without raising taxes. Commercial banks and life insurance companies increased their investments in municipal bonds during 1977.*

However, the ability of cities to improve their infrastructure has not advanced commensurately with their municipal bond performance. A survey conducted by the Joint Economic Committee of 33 of the largest U.S. cities revealed that the major problems with capital borrowing are:

1. Debt service already is so large that further debt service would not be sustainable without cutting into current services.
2. Further debt service would require a local tax increase which cities may be unable (for constitutional and statutory reasons) or unwilling to impose.
3. Further debt is impossible without voter approval and voters are unlikely to approve.**

The major problem appears to be that cities cannot afford to use debt financing without raising taxes or causing a reduction in public services. As a result, the expenditures for capital improvements are limited to only the most essential projects.

This suggests that grants for improving and maintaining urban infrastructure are needed more than improved access to the municipal bond market. Simply providing an alternative borrowing source for cities is unlikely to remedy the problems of the municipal market or meet the capital needs of cities. The subsidy provided by the development bank through the difference between the government borrowing rate and the private market is insufficient to improve the ability of cities to create or renovate infrastructure. The problem of reforming the municipal bond market might better be addressed through the consideration of the taxable bond option, mandatory financial disclosure, and bond pooling arrangements. A discussion of these issues is beyond the scope of this paper, however.

Capital Grants for Municipal Infrastructures

If cities cannot sustain additional accumulation of debt to meet infrastructure needs then intergovernmental grants appear to be required. The question then becomes: is the development bank the appropriate facility to target and distribute these grants? Grant distribution is not a function attributed to the bank by either the Humphrey-Moorhead or Minish bills.†

A development bank which would distribute grants on a scale sufficient to attack the capital needs of American cities is unlikely to be self-supporting. Can the development bank allocate grants more efficiently than present institutions?

Presently, the Department of Commerce and the Department of Housing and Urban Development (H.U.D.) allocate public works grants and community development grants to cities. These grants may be used for improving municipal infrastructure. In 1978 H.U.D. will also administer the new Urban Development Action Grant program. This program is designed to provide funding for innovative activities planned by municipalities for promoting economic and community development. Even though the action grants relate directly to the functions that the development bank should be concerned with, the cost of creating a third facility solely for that purpose is not warranted. If other functions can be found for the development bank however, then moving the action grant funds to the bank may be desirable.

---

* *loc. cit.*

** *Hearings on Capital Needs Faced by Local Government*, December 14, 1977, p. 2.

† Department of Treasury, *Draft Memorandum to Stuart Eizenstat, President's Counsel on Domestic Affairs: Basic Options on the Urban Development Bank*, November 15, 1977, pp. 1517.

Summary

Is there a need for a development bank to provide capital to cities to improve municipal infrastructure?

While it seems probable that the capital needs of many cities are not being adequately fulfilled, the creation of a development banking institution for that purpose may be inappropriate. The adequate performance of the municipal bond market during the past two years make the creation of an alternative borrowing mechanism simply for the sake of an alternative, a costly adventure. There is no reason to believe that a development bank could completely escape the cyclical fluctuations that cause disruptions in the conventional market.

Having a development bank act as a public works grant allocation facility is also not a desirable activity. Grant distribution is not a function which a bank should be involved with unless these grants tie into other economic development functions which the bank might serve.

Using the development bank in a role as back-up to the municipal bond market is undesirable because it only confuses the long and short-term objectives of the bank. If the bank is to serve as a tool to promote long-term economic development then it should not be responsible for crisis management of the bond market. Creating another institution merely clouds the underlying problems of the bond market. Market reforms such as the taxable bond option and more stringent disclosure laws should be considered more thoroughly. On this basis, a role for the bank in providing financing for municipal infrastructure improvement is unwarranted.

Encouraging Private Development Activity

The primary role proposed for the development bank is to encourage long-term economic development in urban areas. The President's Urban and Regional Task Force listed the investment goals of the bank in priority order as follows:

1. Creating or maintaining jobs, income and services for low and moderate income residents of target cities.
2. Increasing the viability and vitality of the overall private economy of the city.
3. Enhancing the fiscal resources of cities.*

More specifically, it means that high priority is placed on growth potential of firms, long-term job creation, stability of employment, increases in tax ratables and the location of new facilities within targeted areas.

In order to promote these goals there are several aspects of development which must be addressed by the bank. The first is improving liquidity and availability of credit for small businesses already existing in urban areas.

The second aspect concerns providing incentives for firms to expand their facilities within urban areas or to encourage new firms to move into urban areas. This might involve providing subsidies to firms by writing down land costs or making subsidized loans.

Finally, the problem of obtaining equity capital for product development can retard or inhibit the growth potential of viable firms.

Small Business Loans

One of the major activities of the development bank could be to ensure financing of small business ventures in targeted areas. Periodic credit crunches have dried up sources of funding for small and medium sized businesses. As the supply of money available for loans decrease, commercial lenders tend to favor loans to larger businesses where the risk and information costs are lower. As a result, commercial loans for smaller-size businesses becomes a residual in the commercial bank loan portfolio. Consequently, many small firms are effectively shut out of the market regardless of their financial condition.**

* U.S. Department of Housing and Urban Development, *The Urban Development Bank: Options for Discussion*, September 18, 1977, p. 8.

** Seminar with Professor Belden Daniels of Harvard University, October 28, 1977, Princeton, New Jersey.

Another exacerbating factor to the borrowing problems of small firms is undercapitalization. The smaller the firm, the more it relies on debt financing. This undercapitalization is an obstacle to firm expansion because few lenders want to take the risk of overextending credit to a firm unless the loan is sufficiently collateralized. Table 10.1 indicates the debt-equity structure of firms by asset class.

As Table 10.1 indicates small firms, particularly manufacturing and service firms, incur high debt-equity ratios in lower asset classes. Manufacturing and many service industries are fairly labor intensive. An effort to create new jobs would be concentrated in these sectors.

Existing Programs for Small Business Assistance

Currently, the major government assistance programs for small firms are administered through the Small Business Administration (S.B.A.). The S.B.A. offers a variety of programs to aid businesses who are unable to secure financing through conventional sources. The principal functions of the S.B.A. are to make and guarantee loans to small businesses (defined as having less than $5 million in sales and employing less than 250 workers) for a variety of purposes. These include loans for working capital, purchase of inventories, relocation as a result of government activity, purchase of equipment and facilities. Under the S.B.A.'s section 7 (a) loan program, the S.B.A. may guarantee 90% of any business loan originated by private lenders. The S.B.A. may also directly loan up to $150,000 to a firm with a minimum 25% participation agreement with a private lender. The S.B.A. may make a 100% direct loan if private financing is unavailable. These loans need not be targeted to specific geographical areas.

During fiscal year 1976 the S.B.A. loaned or guaranteed loans for almost $2.1 billion to 26,078 firms. Of this amount $262 million went to minority-owned enterprises. Table 10.2 shows the breakdown of loans by type and number.

Although the S.B.A. guarantees a large number of loans each year to help small business, there have been a number of problems in the administration of the programs. In 1976, the

TABLE 10.1

CORPORATE DEBT-EQUITY RATIOS FOR SELECTED INDUSTRIES, 1972

Asset Class	Manufacturing	Services	Construction	Trans-portation	Wholesale & Retail
Under $25,000	19.34	3.73	7.13	3.98	5.15
25,000-50,000	2.23	1.96	2.58	2.06	2.06
50,000-100,000	1.41	1.39	1.61	1.52	1.48
100,000-250,000	1.13	1.42	1.38	1.41	1.10
250,000-500,000	.91	1.71	1.70	1.20	1.00
500,000-1,000,000	.80	2.33	1.75	1.43	1.06
1,000,000-2,500,000	.81	2.52	1.79	1.40	1.20
2,500,000-10,000,000	.62	2.17	2.22	1.36	1.16
10,000,000-25,000,000	.58	1.87	2.38	1.36	1.19
25,000,000-100,000,000	.62	1.82	2.13	1.46	1.09
100,000,000 and over	.69	1.34	1.17	1.19	1.08

SOURCE: Small Business Administration, Hearings before the Subcommittee on Small Business of the Joint Economic Committee, 94th Congress, 1st session.

TABLE 10.2

SMALL BUSINESS ADMINSTRATION LOAN PROBLEMS, 1975 and 1976

	1975		1976	
	Number	Amount	Number	Amount
Section 7 (a) loans	18,134	$1,440 million	21,997	$1,920 million
Economic Opportunity	3,613	76 "	3,651	86 "
Displaced Business	186	26 "	132	25 "
Local Development Co.	358	45 "	294	36 "
State Development Co.	7	6 "	4	2 "
Revolving Credit loans	539	58 "	395	43 "
Veterans loans	1,166	40 "	1,468	66 "
Physical Disaster loans	9,114	127 "	20,408	136 "
Surety Bond Guarantee	21,202	760 "	29,138	868 "
Lease Guarantee	110	37 "	41	15 "

SOURCE: Small Business Administration, *1976 Annual Report.*

TABLE 10.3

LOAN LOSSES AS PERCENT OF LOAN DISBURSEMENTS

Year	Section 7 (a) Business Loans	Economic Opportunity Loans	Displaced Business Loans	Local Dev. Company Loans
1970	1.99%	7.45%	.21%	1.10%
1971	2.13	8.59	.21	1.24
1972	2.17	11.33	.32	1.53
1973	2.14	12.41	.37	1.79
1974	2.17	13.33	.43	2.53
1975	2.66	17.23	.51	2.83

SOURCE: Small Business Administration, Hearings before Joint Economic Committee, 94th Congress, 1st session.

General Accounting Office issued a series of reports critical of the major S.B.A. programs. Among some of their critcisms of the Section 7 (a) program were:

1. Loans were approved which transferred the risk of loan default from banks and creditors to the S.B.A. itself.
2. Lack of follow-up on businesses to ensure success of the loan.
3. Inadequate procedures to detect delinquent loans.
4. Loans made to wealthy businesses not intended to receive assistance.*

The lack of effective management control and financial screening procedures has led to increasing default rates in the S.B.A. portfolio. Table 10.3 shows the increase in loan losses of the S.B.A.'s portfolio.

The inability of the S.B.A. to keep loan losses down may indicate that many non-viable businesses are being financed. Or it may mean that businesses are receiving inadequate counseling from the S.B.A.

Perhaps a more serious problem is the periodic credit crunches which dry up capital for small businesses. Two alternative solutions to this problem are possible. The first is to subsidize loans during periods of high interest rates provided the businesses have a reasonable chance of surviving in more normal times. The other alter-

* U.S. General Accounting Office, *The Small Business Administration Needs to Improve its Section 7(a) Loan Program,* Washington, D.C., February 23, 1976, pp. i-iii.

native is to provide a more effective secondary marketing arrangement for S.B.A. loans in order to encourage private lenders to originate more small business loans. These alternatives are not necessarily mutually exclusive.

Subsidy of Small Business Loans

To a certain extent, the S.B.A. does subsidize business loans. Direct section 7 (a) loan interest rates are fixed by law. In 1974, the maximum rate S.B.A. could charge was 6.75%. Comparable private market rates were 11%. The S.B.A. loan guarantee program specifies a range of permissible interest rates for S.B.A. participation agreements.

Because this program already exists, there seems to be little need for a development bank to engage in this type of activity. One exception may be a small business located in an area in which the development bank may already be active. If this small business performs an activity which could be valuable to other firms being located within an urban area (e.g. a plastics manufacturer which supplies material to a toy assembly plant), then the development bank might consider subsidizing or partially subsidizing a business loan. Perhaps the best arrangement to do this would be to tie in the S.B.A. loan program with the activities of the development bank. The S.B.A. would guarantee or make the loan and the development bank could assume the cost of the subsidy. The development bank should not be involved in originating the loans themselves.

Secondary Marketing of Business Loans

Using the development bank as a marketing facility for small business loans has been suggested as a method of lowering the cost of small business loans (at least in urban areas). By creating a secondary marketing facility, banks could sell S.B.A. loans to get liquidity in order to make more business loans. A subsidy could be added by reducing the interest rate on the original loans. The development bank would make up the difference between the market rate and the loan rate. The development bank could ease the cyclical credit squeezes by buying S.B.A. loans in periods of high interest rates. The development bank would buy loans that contribute to the long-term economic development of urban areas.

One of the major disadvantages of a secondary marketing facility is that lenders may use the secondary market as a dumping ground for high-risk loans or loans imminently in default. Without an effective screening process, this institution could be abused. Another disadvantage is that lenders may sell S.B.A. loans in order to gain liquidity to take advantage of other investment opportunities. Lenders may not use their funds to originate new S.B.A. loans. The development bank could not compel banks to make new loans. A final disadvantage is one of organization. If the development bank invests only in urban areas, then it cannot act as a secondary market for the entire country. The creation of two secondary marketing institutions competing for the same limited loan portfolio would not be efficient.

Currently, the S.B.A. has been trying to promote a private secondary market, but its success has been limited. Of the potential $2 billion annual loan amount originated each year, only $112 million of S.B.A. loans were marketed in the secondary market during fiscal year 1976, less than 6% of the potential market.* High loan loss rates and S.B.A. red tape have inhibited the growth of a secondary market. These problems will not be reduced without some reforms in S.B.A.'s screening and administrative procedures.

The principal motivation for actively involving the development bank in small business lending is to supplement and strengthen S.B.A. activity in urban areas targeted for assistance by the development bank.

---

* U.S. Department of Commerce, Small Business Administration, *"Full Faith and Credit": Secondary Participation and S.B.A. Guaranteed Loans*, Washington, D.C., June 1977, p. 3.

Incentives for Business Expansion

Probably the single, most important activity specified in all development banking proposals is that of helping finance the project costs of new firms in an area or existing firms wishing to undertake a major expansion of their facilities. Typically, this may involve three types of separate capital requirements: 1) financing land acquisition and development; 2) funds for constructing buildings and for purchasing equipment and 3) working capital and equity capital for project start-up costs.

Land Acquisition and Development

Land costs in all urban areas are a deterrent to economic development. There are few government programs which address the problem of land acquisition and site development. Because of the fragmented nature of urban real estate markets, the cost of acquiring land from a number of land owners can be prohibitive. Without a mechanism to write down the cost of land, public sector efforts in this area have been limited. The old urban renewal program allowed the public sector to absorb a portion of land costs and to resell the land back to private developers. Much of this urban renewal land is unsuited for new industrial and commercial development either because it has been converted to residential uses or is not in an area where a significant private demand exists for industrial or commercial use. Any additional attempts by urban areas to increase the supply of raw land have been stymied by lack of funding.

The federal Economic Development Administration (E.D.A.) has had an industrial parks program for a number of years. The purpose of the program is to develop the facilities necessary to encourage industry to locate in depressed areas. Historically, E.D.A.'s industrial parks program has been most active in rural areas. The primary disadvantage of the park program is that it does not provide adequate funding to reduce the cost of land to the point where it becomes feasible for a private firm to expand or relocate to urban areas.

What then should the role of the development bank be? The unavailability of resources by the local municipalities has been an obstacle to land development. In this case, the development bank might either use grants or loan guarantees to support the efforts of municipalities to reduce land costs or prepared land sites. If a city were willing to commit a portion of its community development block grant or other city funds, the development bank might match the grant on a percentage basis.

Financing for Plant and Equipment

Whenever a firm invests in new plant and equipment, it usually obtains a loan from a bank or sells corporate bonds. Although, the cost of equipment and plant (excluding land costs) does not vary within a region, higher costs of maintaining the plant may be incurred by greater expenditures for security, fuel, services and taxes. Consequently, urban areas and some urbanized states are at a competitive disadvantage.

Besides land write-downs and tax abatement, many states attempt to lure industry to their jurisdictions by using industrial revenue bonds. States float bonds at a tax-exempt rate and then loan these funds to the firm. The difference between corporate bond rates and the tax-exempt rate becomes a subsidy to the firm.

The U.S. E.D.A. also has a business development loan program which has been used to attract firms to depressed areas of the country. E.D.A. loans are administered through a local development authority in the region. Table 10.4 indicates the level of financing for business development which E.D.A. has provided since 1965.

As can be seen in table 10.4, E.D.A. has managed to leverage private funding with this program. However, the scope of E.D.A.'s activity has been limited to an average of $36 million a year,

TABLE 10.4

OBLIGATED EDA BUSINESS LOAN PROJECTS BY SOURCE OF FINANCING*

Fiscal Year	Obligated EDA funds	Bank funds	Other private	Local development	State/ county	Applicant	Other funds	Total cost	No. of projects
1966	$34,160,816	$7,371,000	$15,871,000	$5,993,000	$919,000	$7,698,000	$27,000	$72,039,816	55
1967	38,678,211	9,184,000	3,700,000	3,652,000	1,608,000	7,715,000	1,090,000	65,627,211	52
1968	42,074,001	12,043,000	58,070,000	2,566,000	527,000	17,867,000	. . .	133,147,001	42
1969	33,852,061	10,645,302	2,400,000	3,451,731	91,625	6,766,403	70,100	57,277,222	38
1970	35,562,688	25,795,567	4,046,281	4,565,999	1,042,000	11,208,284	. . . . .	82,220,819	28
1971	40,899,042	17,846,295	2,899,330	3,523,235	2,093,000	11,121,955	2,442,400	80,825,257	33
1972	41,992,601	14,712,808	2,483,790	3,106,061	236,800	14,286,388	. . . . .	76,818,448	38
1973	33,493,826	27,101,969	1,043,032	3,372,399	90,020	10,481,616	. . . . .	75,582,862	36
1974	17,441,069	10,016,500	. . . . .	1,455,735	. .	6,021,465	. . . . .	34,934,769	11
1975	8,436,250	6,012,297	25,000	1,102,915	122,500	2,444,335	50,000	18,193,297	11
1976	59,832,790	26,939,085	16,637,250	8,117,225	125,000	32,792,799	3,920,000	148,364,148	51
Total	$386,423,350	$167,667,820	$107,175,683	$40,906,300	$6,854,945	$128,403,245	$7,599,500	$845,030,826	395

* Represents current obligations which included obligations of prior year funds.

NOTE: Detail may not add to totals due to rounding.

SOURCE: Economic Development Administration Annual Report, Fiscal Year 1976.

hardly sufficient to make a significant dent in unemployment and development problems.*

The S.B.A. also loans to local development companies to create new jobs, expand local tax bases and otherwise indirectly stimulate business. The program has been hampered by a lack of funding plus internal management difficulties. A General Accounting Office study revealed that projected employment levels were seldom reached with these loans. In one case where S.B.A. estimated that 75 new jobs would be created as a result of one loan, four jobs were actually created.**

Although a broad consensus exists among proponents of development banking for a significant private loan component within the bank, there are differing opinions over how these loans would be made.

The type of businesses to be stimulated is one fundamental question upon which there is little agreement. Almost all proposals stress job-creation as an important criteria for targeting aid. However, should the focus of the bank be to attract new firms to the area or to make it more attractive for old ones to expand their existing facilities? By promoting community-based enterprises a sense of community cohesion might be fostered.

The size of the firm is a factor too. If job creation is the primary criteria for targeting loans, then medium- to large-sized firms should be sought. Firms of this size may be more likely to employ 100 or more new workers and make a more substantial contribution to the area's development. These firms may be more likely to survive than smaller firms. On the other hand, new job creation for small firms may only be in the range of 5-15 new jobs created. Total cost per job may also be higher. If the bank is to truly internalize all the benefits of job creation, then the bank may want to foster community-owned enterprises.

Investment risk is another factor to be considered. Should the development bank use hard market loan criteria? Implicit in this question is the belief that there is an inventory of projects that are sustainable without subsidy. Market imperfections may prevent capital from flowing to firms wishing to expend or relocate. Lack of information, redlining or anti-urban bias of the

---

* U.S. Congress, Testimony before the Sub-Committee on Small Business of the Joint Economic Committee, *The Role of Small Business in the Economy: Tax and Financial Problems*, 94th Congress, 1st session, Washington, D.C., pp. 97-98.

** U.S. General Accounting Office, *The Small Business Administration Local Development Company Loans are Making Capital Available . . . But Other Aims are Often Subverted*, Washington, D.C., March 31, 1976, pp. 10-13.

tax structure may hamper efforts to stimulate private investment in cities. If subsidies are used, one may give the impression that some firms lack viability without government assistance. A possible consequence could be that the development bank would be unable to leverage private funds.

The other side of the argument is that some form of subsidy is needed because urban areas are not attractive to firms. Eligibility criteria should consider the impact that a project will have in job creation and stimulating further investment. Under a hard market loan criteria there is a danger that the bank will make loans which the private market would have originated anyhow.

In conclusion, some form of subsidization (interest rate or loan guarantee) seems necessary to actually induce *new* firms to locate in cities. Subsidy may also (not necessarily) be needed to encourage existing firms to expand in urban areas. Other economic factors such as labor force characteristics, labor costs, amenities and land costs play a more important role in the locational decisions of new firms. A loan at market interest rates are simply an insufficient inducement. For that reason the development bank should concentrate on encouraging existing firms to expand in their home cities. A subsidy should be offered on a selective basis only if the firm shows sufficient growth potential, job-creating capacity and an ability to stimulate further investment.

Business Working Capital

Working capital is necessary to finance a firm's cash needs throughout the year. Typically, working capital is used to finance inventories, cover seasonal fluctuations in earnings, pay current expenses and to maintain a contingency reserve. Commercial bank loans are usually available for this purpose. The S.B.A. loans money to small companies to cover seasonal cash needs. The E.D.A. also provides working capital loans and guarantees to firms, usually as part of an overall loan package to firms. Table 10.5 shows the number and type of firms receiving E.D.A. working capital guarantees.

The development bank should not make working capital loans a major portion of their activity, since these loans can be included in a total package of financial assistance to a firm.

Development Banks and Equity Capital

Another major role proposed for development banks in the area of economic development is that of providing equity capital. The need for equity financing occurs at several stages in a firm's development; 1) for new product development, 2) start-up, 3) growth capital and 4) for issuance of public stock. Most private venture capital is invested at the third stage of a firm's development, when a firm needs to expand its facilities to produce a marketable good.

Venture capital in the U.S. comes from several sources including private venture capital corporations, insurance companies, investment banks and government-licensed small business investment companies (S.B.I.C.'s). The decline of the new issues market plus increasing regulation of stock trading by the Securities and Exchange Commission (S.E.C.) has diminished the interest of private investment in small, new enterprises. This has increased the relative importance of S.B.I.C.'s in venture capital formation.

Small Business Investment Companies are investment groups licensed by the S.B.A. to make equity investments in small firms for new development. S.B.I.C.'s may draw upon a pool of capital within the S.B.A. and in turn, invest these funds in small business by purchasing a firm's stock. The S.B.I.C. may use their funds to leverage capital from other private sources as well. During fiscal year 1976, $122 million in new investments were made by S.B.I.C.s.*

* S.B.A., 1976 Annual Report, pp. 35-36.

TABLE 10.5

APPROVED EDA BUSINESS DEVELOPMENT GUARANTEES BY TYPE OF PROJECT, SHOWING APPROVED FUNDS

	Fiscal Year 1976		Cumulative FY 1966-76	
	No. of projects	EDA investment	No. of projects	EDA investment
		($000)		($000)
Agricultural services/hunting/trapping	1	$2,250	2	$2,318
Amusement/recreation services, except motion pictures	1	353	3	623
Building construction/general	..	....	2	1,080
Chemical and allied products	..	....	3	963
Eating and drinking places	..	....	2	585
Electrical and electronic equipment	1	1,800	7	4,113
Fabricated metal products, except machinery and transportation equipment	1	714	5	5,884
Food and kindred products	8	13,041	19	19,096
Furniture and fixtures	1	270	6	3,060
Hotels, rooming houses, camps/other lodging	1	450	4	738
Leather and leather products	3	2,025	4	2,093
Lumber and wood products, except furniture	..	....	15	4,623
Machinery, except electrical	2	909	8	3,080
Mining and quarrying of nonmetallic minerals	3	1,566	4	1,791
Miscellaneous manufacturing industries	..	....	1	450
Motor freight transportation and warehousing	..	....	1	90
Paper and allied products	1	450	6	3,200
Primary metal industries	2	5,904	3	6,354
Printing, publishing, and allied industries	..	....	3	653
Rubber and miscellaneous plastic products	..	....	1	630
Stone, clay, glass, and concrete products	1	7,200	6	8,155
Textile mill products	3	2,900	10	5,380
Transportation equipment	2	7,515	9	108,279
Total	31	$47,346	124	$183,237

NOTE: Detail may not add to totals due to rounding.

S.B.I.C.s have not performed well during the last few years. In part this has been due to budgetary constraints which limit the amount of funds the S.B.I.C.s can borrow from the S.B.A. The poor performance of the stock market in the 1970's has diminished the ability of S.B.I.C.s to recoup their investments quickly.* Whereas venture capitalists could expect to recover their entire investment outlay in three to five years during the 1960's, now they may have to wait for seven to ten years or more. In 1976, despite increased funding of investment companies, S.B.I.C.s as a whole showed a net loss of one half million dollars on investment income after taxes. Table 10.6 shows the performance of S.B.I.C.s and M.E.S.B.I.C.s (Minority Enterprise Small Business Investment Companies) during 1976.

Some Proposals

Several of the current development bank proposals include provisions for some form of equity financing. The Administration bank proposal

* John Dominguez, *Venture Capital*, Lexington Books, Boston, Massachusetts, 1974, chapter 1.

TABLE 10.6
STATUS OF SBIC's AND MESBIC's IN 1976

Asset Size:	less than $1 million	$1,000,000-2,000,000	$2,000,000-5,000,000	$5,000,000-10,000,000	$10 million or more	MESBIC
Net Investment income after taxes (millions) . . .	(.2)	(.3)	(1.1)	.6	.4	(.7)
Gain or (loss) on sale of securities (millions)	(.4)	.2	(.6)	(.4)	(5.9)	(1.3)
Unrealized gain or (loss) on securities (millions) .	(.2)	2.0	1.7	2.1	16.7	(1.8)

NOTE: Parentheses denote losses.
SOURCE: Small Business Administration, *SBIC Digest*, May 1977.

rejects the role of venture capitalist for aiding firms. If venture capitalists using profit and rate of return as their investment criteria were sustaining losses, then the viability of the development bank accepting the venture capital role is uncertain. If the development bank were to assume responsibility for taking an equity interest in specific development projects it may be necessary to leave a reserve for potential losses. In addition to the expense of covering the cost of capital, the bank would incur the cost of assembling a management team who would screen proposals and perform other venture capitalist management functions.

Instead of using the development bank to act directly as a venture capitalist or to subsidize development projects, it should be possible to create a pool of funds which could be used by S.B.I.C.'s for equity investments in urban areas. The banks would supply the capital to S.B.I.C.'s at relatively low cost. The S.B.I.C. would then invest this capital in innovative firms located in urban areas. Certain employment and long-term growth criteria would be used to identify firms which desired to expand their facilities within an urban area. Such an arrangement would obviate the need for the development bank to assemble a team of venture capitalists to evaluate each project. This procedure is similar to the present arrangement between the S.B.I.C.'s and the S.B.A.

The problem with such an approach is that there is no real incentive for the S.B.I.C. to take higher risks unless real opportunities to make money already exist in these areas. There is also some question as to whether the decision of a firm to remain in an urban area would lower its profitability (e.g. higher taxes, expenditures for security) and hence its attractiveness to the S.B.I.C. By acting through an intermediary, the devlopment bank cannot ensure that equity financing will flow to targeted areas.

Some Additional Questions

In considering the functions which a development bank might serve, one must raise several issues as to how the bank will be operated before a definitive conclusion can be reached concerning the justifiability of creating a separate banking entity.

Establishing an Evaluation Criteria for Bank Activities

From the very beginning, any development bank is going to have to establish a set of criteria upon which to evaluate its performance. Too often, business influence dictates that the bottom line be the profit or loss statement of the organization. In other cases, crude indicators such as number of new jobs created, cost per job, or size of new investment have been used to gauge the benefits of a program. However, these indicators

are not any more helpful than a balance sheet approach. Part of the problem is the inability to attribute specific costs and benefits to a single project using more sophisticated evaluation techniques. But the major problem remains the reluctance of public officials to get away from the belief that profit/loss statements are the most reliable indicator of a banking facilities success. Evaluation of public programs utilizing private market standards should not be the only standard used.

For example, an evaluation of a secondary marketing program of S.B.A. loans might include an evaluation of the following costs and benefits.

Costs

- —The displacement effect on the private secondary business loan market
- —Number of loan defaults
- —Rate of return vs. cost of capital
- —Displacement effect of borrowing in the money market
- —Use of market to "dump" loans of non-viable firms

Benefits

- —Increased liquidity for lenders
- —Number of new S.B.A. loans created
- —Total amount of new investment created
- —Attractiveness of S.B.A. loan pools to other secondary buyers
- —Increase in size of secondary markets
- —Countercyclical impact of market
- —Lower cost of borrowing for business
- —Increased access to capital markets for small business

Although this list of criteria is by no means all-inclusive, these are the types of costs and benefits which should be weighed in such an evaluation. Continued activity by the bank in each area would be dependent upon how heavily one weighted the costs and benefits of the program.

Relationship with the Private Sector

Much of the proposed Carter administration's urban and economic revitalization effort hinges on the ability to use public funds as leverage for private funding. This is not a new idea. The principal problem has been that public expenditures have often used private market evaluation standards and perceptions of risk to evaluate the effectiveness of these programs. As a result, public investment has had unfavorable results, at least as perceived through these standards.

The danger with establishing new criterion with which to evaluate the effectiveness of development banking activities is the potential negative impact it has on private market cooperation. The ability to use such an accounting system and still secure private market participation requires a careful balancing act between public goals and perceptions of risk. The other alternative is subsidizing the private sector to accept these risks. For some activities this may have to be done. But all development bank activities proposed in this study will require private sector cooperation if they are to measurably impact on the problems of urban economic decline.

A secondary marketing arrangement for business loans can be effective only if lenders use the market to increase their liquidity so as to originate additional small business loans. Likewise, grants and loans for economic development will be effective if a leveraging effect on further investment in job creating enterprises can occur. There is no easy solution to resolving this fundamental tension between public and private investment goals.

Targeting

One of the most relevant political issues is the one of targeting—which urban areas will be eligible for development bank assistance. The debate over eligibility has often been cast in terms of the "Frostbelt" cities versus the "Sunbelt" cities. However, a number of cities in the South and the West exhibit characteristics similar to declining urban centers in the Northeast

and Midwest. This cleavage between regions is sometimes true even within states. President Carter has decided, however, that the new urban policy will include all cities not just those in the Northeast and Midwest.

Keeping this in mind, eligibility criteria should be based on a number of factors. These might include 1) the average unemployment rate for the past five years, 2) the mismatch between the city's workforce and metropolitan area job opportunities, 3) metropolitan area comparative advantages, 4) composition of the economic base and 5) employment growth rates.

The development bank should be cautioned against providing incentives for industry simply for the sake of attracting industry to a particular area. Consideration should be given to the long-range survival prospects of that type of industry. For example, general macroeconomic conditions may weigh against expansion of a steel mill. The bank should also look at other factors. For example, will local suppliers be able to provide all of the raw material needs of a producer if that producer expands? Or will additional transportation costs be incurred by having to purchase materials from another geographical area? Presumably these calculations enter into the firm's decision to expand or relocate but the development bank program staff should be aware of these factors as well.

Targeting looms as a significant political issue which must be addressed by the bank or Congress. If eligibility standards allow assistance for cities over 250,000 only, then smaller cities with legitimate economic development needs will suffer. On the other hand, if every city is eligible the bank is not likely to have a significant impact.

Summarizing the Need for a Development Bank

This study has briefly considered the functions which a development bank might serve. Using a development bank as a source of funds for long-term municipal infrastructure was rejected because of the high cost of serving as an alternate source of capital for cities. A role as a federal "backstop" for the municipal bond market was rejected because it might divert resources from other important functions which the bank might serve at critical times. A better way to resolve the municipal bond market problem is to consider the taxable bond option, expanding mutual funds and utilize better disclosure procedures.

Using the bank as an alternative source of funds for small businesses is probably not desirable because of the existing network of institutions which perform that function now. Overseeing or replacing the S.B.A. would be an enormous task. One exception might be for loan guarantees for particular small businesses within targeted areas. This program would be limited to firms directly related to economic development projects on-going in that area.

The development bank could be useful in providing a secondary market for small business and economic development for urban areas. If the bank were to provide that function, it must determine whether it is to buy loans from all areas of the country or whether it is to purchase loans in only urban areas. By accepting only urban-originated S.B.A. loans the bank will leave the remaining S.B.A. loan portfolio reliant on the private secondary market.

Probably the most important function that the development bank should serve is financing development packages for private firms in target areas. This would include assistance with land acquisition and preparation, plant and equipment purchases and working capital. The bank should have authority to make loans and loan guarantees for these purposes. Under special circumstances, grants of up to 20% of total project costs might be made. The bank should use discretion in determining the amount of assistance needed to enable the projects to succeed.

Finally, a pool of equity capital should be set aside for S.B.I.C.'s who wish to make equity par-

ticipations in firms which have growth potential and are located in eligible urban areas. The development bank should not act directly as a venture capitalist.

It should be noted that a development bank addresses only one facet of the urban economic development problem, mobilizing capital. Other factors of importance include relative wage rates, locational amenities, characteristics of the work force and tax laws. A development bank cannot affect the skill levels of workers or a state's unemployment compensation program. Inevitably, this will reduce the impact of the bank on promoting economic development within an urban area.

XI

STRATEGIES TO CURB REDLINING*

In recent years, a growing number of community action groups, local officials and federal policy makers have expressed concern that the financial community, particularly the savings and lending industry, has deserted urban neighborhoods, resulting in a dearth of housing capital which triggers or accelerates central city decay. The systematic denial of mortgage and home improvement funding to certain neighborhoods is popularly known as redlining or, more formally, mortgage or urban disinvestment. The practice can be also manifested in the imposition of more stringent credit terms, including higher interest rates, shorter payback periods and lower loan to value ratios in metropolitan neighborhoods than is customary in other jurisdictions. Clearly, such withdrawal or high cost of mortgage and home improvement credit can accelerate the deterioration of an urban neighborhood.

Activists on the disinvestment issue have traditionally maintained that redlining represents a refusal to extend mortgage and home improvement funding to creditworthy borrowers on reasonably sound properties, thereby asserting, if only implicitly, that the problem pertains to viable neighborhoods alone.** Hence, the following discussion of reinvestment strategies assumes that the neighborhoods in question have not suffered irreversible decline. An anti-redlining strategy would be both inadequate and inappropriate in an area characterized by extraordinarily low resident income levels, a virtual absence of homeownership demand, and marked deterioration *of the bulk of the* housing stock.

Inasmuch as the cause of a problem largely determines the nature of the cure, the first section of this essay is devoted to the development of an economic model of urban lending, and a discussion of the empirical data which bear on the analytic treatment. The second section describes several promising reinvestment strategies, while the third section offers policy recommendations to stimulate the provision of mortgage and home improvement credit to declining urban neighborhoods.

I. Redlining in Context: A Model of the Urban Lending Market

The Demand Side: The demand for mortgages and home improvement loans in an older urban neighborhood is readily interpreted by an application of the filtering model postulated by Ira Lowry.† The filtering process occurs as higher income individuals vacate their present dwellings for newer units, creating a price-depressing surplus in a local housing market. Thus, as filtering proceeds, a given unit will, during its structural life, "filter down" into the

---

* Prepared by Leanne R. Aronson, Center for New Jersey Affairs, Woodrow Wilson School for Public and International Affairs, Princeton.

** See, for example, Arthur J. Naparstek and Gale Cincotta, *Urban Disinvestment: New Implications for Community Organization, Research and Public Policy* (Washington, D.C.: National Center for Urban Ethnic Affairs), February, 1976.

† Ira S. Lowry, "Filtering and Housing Standards: A Conceptual Analysis," *Land Economics*, November, 1960.

hands of successively lower income occupants. The price decline of an aging unit, moreover, is associated with a decline in its quality as well.

The decline in occupant income associated with filtering also depresses the demand for housing credit. The demand for mortgages is derived from the demand for homeownership, which is itself highly income elastic. The income elasticity of the demand for new housing has recently been estimated at as high as 3.4 percent.* Thus, an older urban neighborhood, inhabited largely by moderate and lower income families, is likely to experience a stagnation in housing market activity, as well as a depression of mortgage demand.

This theoretical conclusion is supported by recent data on housing and mortgage demand. Brimmer's examination of 1970 census data indicates that the incidence of homeownership rises with the level of occupant income "from the lowest through the median income and then declines again. A similar 'bell-shaped' curve is observable in the case of mortgaged homes. . . . The median income for homeowners with mortgages outstanding . . . was about 13 percent above those of all homeowners, while those with no mortgages had a median income that was 34.6 percent below that for all homeowners."**

Similarly, a forthcoming study by a University of Rochester research team indicates that allegedly redlined neighborhoods in upstate New York displayed no unsatisfied mortgage demand during a year-long survey period.† The likelihood that mortgage demand is not particularly high in supposedly redlined neighborhoods is supported by the perceptions of many lending officers active in older city areas.‡

The filtering model also suggests that the decline in price associated with the aging of units in a particular neighborhood would similarly depress the demand for home improvement loans. Lowry argues that the owner of an older unit, cognizant of the declining market price of the structure, attempts to reduce loss on his original investment by resorting to a policy of under-maintenance. Indeed, theoretical analysis indicates that aggregate disinvestment is less likely to be the exception than the rule in an aging neighborhood. Inasmuch as the individual homeowner is able to affect only the appearance of his own property, the expense of rehabilitation may not appear justified if the bulk of the neighborhood is experiencing decline. As Mills argues, little incentive exists for the individual homeowner to invest in the maintenance of his dwelling in the absence of a concentrated neighborhood preservation effort.¶

Thus, viewing the demand side of the urban home credit market from the perspective of the filtering model suggests that the absence of housing capital in older metropolitan neighborhoods may be at least partially attributable to a weakened demand for mortgage and home improvement funds, rather than to arbitrary "redlining," per se. A successful urban reinvestment strategy, then, should be required to stimulate the demand for housing credit in such neighborhoods, as well as to overcome the individual propensity to under-maintain an aging structure.

The Supply Side: Lender behavior relative to the mortgage market may be viewed in accordance with traditional portfolio theory, which

---

* Data supplied by Kenneth Rosen, Professor of Economics and Public Affairs, Woodrow Wilson School of Public Affairs, Princeton University.

** Andrew Brimmer, *Risk versus Discrimination in the Expansion of Urban Lending* (Chicago: U.S. League of Savings Associations, 1977), pp. 18-26.

† "Review and Outlook: The Redlining Fiction," *Wall Street Journal*, October 12, 1977.

‡ See, for example, *ibid.*, which quotes I. J. Lasurdo, President of Brooklyn, New York's Green Point Savings Bank. Green Point Savings has been praised by community groups for its liberal mortgage policies in older Brooklyn neighborhoods, but Lasurdo views redlining as a "phony political issue." If other Brooklyn thrift institutions adopted similarly positive lending policies, Lasurdo maintains, the Green Point would be out of business because the additional valid demand just does not exist.

¶ Edwin S. Mills, *Urban Economics* (Glenview, Ill.: Scott Foresman and Company, 1972), pp. 173-174.

maintains that the rational investor will commit funds on the basis of the risk-return criterion. As Rosen notes, "the lender makes loans of various risk characteristics, with the return demanded rising with the amount of risk he incurs."* The prudent mortgage lender may respond to a perception of risk by altering the terms of the loan. Lower loan to value ratios, higher interest rates, shorter payback periods, and the imposition of additional points and fees are mechanisms that an individual lender could employ in order to offset risk on a seemingly dubious loan. Indeed, an exaggerated perception of risk may result in a refusal to extend housing credit to a given borrower.

The possibility that mortgage and home improvement lending would prove more risky in older urban neighborhoods is consistent with an extension of the filtering model introduced above. The reduction in occupant income which accompanies the filtering process would be expected to raise the risks of default and foreclosure, as individuals less able to manage credit instruments or to withstand temporary economic reversals entered the mortgage market. Similarly, the propensity of an owner to under-maintain an aging property would be expected to increase the possibility of loan delinquency.

The analyses conducted by George von Furstenberg tend to support these theoretical conclusions. An examination of defaults on FHA and VA loans made over the period 1957-1966 revealed that borrower income (among other variables), was a statistically significant determinant of default, with income inversely related to default risk. Later studies, investigating mortgage delinquencies on conventional loans extended by a major Pittsburgh S & L between 1961 and 1972, substantiated the earlier finding on borrower income, and indicated that the age of the mortgaged structure was positively and significantly related to the incidence of delinquency. Specifically, mortgage loans on homes twenty or more years of age were found to be significantly more risky than those on newer structures.**

Aggregate data also tend to support the conclusion that urban lending is associated with higher risk than is found in more prosperous jurisdictions. FHA cross-sectional data on regional default trends, compiled during 1974, indicated that states in which defaults exceeded the national average tended to cluster in the Northeast and North Central regions, where the nation's older urban centers are concentrated. While the FHA default average was 2.40 percent nationwide during 1974, defaults reached 5.92 percent in New York, 5.49 percent in Illinois, and 3.32 percent in Pennsylvania.†

Similarly, time series data compiled by the Federal Home Loan Bank Board (FHLBB) indicate that FHA-VA underwritten mortgages have consistently sustained higher rates of foreclosure than have conventional loans backed by S & L's. Brimmer's review of the data revealed, for example, that the spread between the foreclosure rate on FHA-VA and conventional loans "was about 2 to 1 in 1968, . . . (and) climbed to nearly 7½ to 1 by 1973." Inasmuch as FHA-VA mortgages are more heavily concentrated in the inner city than are conventionally backed instruments, these figures indicate that lending in the urban core involves more risk than lending in suburban jurisdictions.

II. Promising Strategies to Combat Redlining: Several Case Studies.

A. Strategies Sponsored by National Organizations

1. The Urban Reinvestment Task Force: Neighborhood Housing Services

To date, the Neighborhood Housing Services (NHS) program of the Urban Reinvestment Task Force remains the most comprehensive

* Kenneth Rosen, "The Impact of State Usury Laws on the Housing Finance System and on New Residential Construction," (unpublished, 1976), p. 19.

** For a review of von Furstenberg's work, see Brimmer, *op. cit.*, pp. 54-55.

† *Ibid.*, p. 45.

urban reinvestment strategy in the United States. The Task Force itself represents a joint effort of the U.S. Department of Housing and Urban Development (HUD) and the federal regulatory agencies—The FHLBB, The Federal Reserve System, the Federal Deposit Insurance Corporation and the Comptroller of the Currency. The Task Force is staffed by the FHLBB's office of Neighborhood Reinvestment, and is sponsored through the HUD-sponsored demonstration grants.*

The Task Force serves as a catalyst for the creation of local NHS efforts, which link community organizations, municipal governments and local financial institutions in programs to provide home improvement and mortgage loans in selected neighborhood target areas. By July, 1977 there were thirty-five NHS programs operating in forty-two neighborhoods nationwide, with an additional eighteen in the development stage.**

Cooperation between neighborhood groups and the local lending community is the requisite condition for the creation of an NHS. A consortium of local lending institutions must agree to underwrite the administrative expenses of the NHS effort, and to grant mortgage and home improvement funding to credit-worthy area residents. For its part, the municipal government is required to extend necessary capital improvements to the NHS neighborhood, and to work closely with area residents and program staff in administering code enforcement standards.

The local NHS staff provides homeownership counseling to loan recipients, and works to promote individual property upgrading activities in the target area. Task Force seed moneys and private philanthropic contributions are utilized in this context for the creation of a high-risk revolving loan fund, to extend mortgage and home improvement capital to area residents who do not meet normal credit criteria.

The Task Force focuses its activities in areas which ideally meet the following standards:

(1) A minimum of 50 percent of the units must be owner-occupied.

(2) Neighborhood median income must be at least 80 percent of the city median.

(3) The typical per-unit repair cost should be in the $5,000-$7,000 range.

(4) The core area of the neighborhood should be comprised predominantly of single-family homes.

The non-bureaucratic character of the NHS effort permits local programs to adopt credit and code enforcement procedures suited to the housing needs of the neighborhood in question. Similarly, the enthusiasm of local officials, residents and lenders is enhanced in that an NHS effort is essentially self-generated, with a minimum of supervision from the parent Task Force.†

The target neighborhood approach is also central to the NHS success. The concentration of credit, as well as the concentration of municipal upgrading efforts in a well-defined area prevents the dissipation of scarce resources, and encourages individual property owners to improve their residences by fostering a neighborhood-wide commitment to housing preservation. Concomitantly, the targeting approach strengthens lender participation in the program by reducing the perceptions of risk associated with credit extension to the NHS neighborhood. Finally, there is evidence to suggest that the presence of a local NHS model spurs rehabilitation efforts and loan activity in adjacent neigh-

---

* Urban Reinvestment Task Force, pamphlet, "Neighborhood Housing Services: A Partnership that Works." (Washington, D.C., 1977).

** Statement of Garth Marston, Chairman, Federal Home Loan Bank Board, reproduced in U.S. Congress, Senate Committee on Banking, Housing and Urban Affairs, *Neighborhood Reinvestment Corporation*: Hearing on S. 1724, 95th Congress, 1st Sess. (Washington, D.C.: U.S. Government Printing Office, July, 1977), p. 27.

† Telephone interview with William Whiteside, staff director, Urban Reinvestment Task Force, April 5, 1977.

borhoods, by providing a positive example of community reinvestment.*

A recent addition to the NHS program has been the creation of a secondary market for locally-generated high-risk revolving loans. The secondary market venture, operated by a Task Force subsidiary, the Oakland, California-based Neighborhood Housing Services of America, is intended to provide additional liquidity for individual revolving fund accounts, while preserving local flexibility in setting NHS credit terms for high-risk borrowers.**

Congressional enthusiasm for the NHS venture has led to unanimous Senate passage of legislation, S. 1724, which would reconstitute the Task Force as a national Neighborhood Reinvestment Corporation. Identical legislation will be considered by the House during the second session of the 95th Congress. The measure is intended to acknowledge the Task Force's progression from an untested, pilot demonstration in 1974, to its present status as the nation's primary catalyst in the promotion of local investment efforts. A staggered increase in funding from the present $4.5 million to $30 million in fiscal 1981, as proposed under S. 1724, would permit the development of over 200 local NHS programs by 1982.†

2. The Federal National Mortgage Association: The Affirmative Urban Lending Program

Under its affirmative urban lending program, the Federal National Mortgage Association (FNMA) hopes to demonstrate that a growing central city market exists for conventional mortgage and home improvement loans. FNMA is testing pilot lending programs in Dallas and St. Louis, and has selected nine other cities as expansion sites for future affirmative lending efforts.‡ The FNMA venture is still in its infancy: the two pilot programs now in operation were started roughly a year ago. The following report focuses on the St. Louis effort, the more advanced of the two pilot programs.

Under the St. Louis City Housing Program, a FNMA task force works with local lenders to develop innovative residential financing techniques in six selected target areas; expansion to eight other neighborhoods is anticipated. Average household income levels in the six initial neighborhoods range from $10,722 to $12,613, according to 1974-75 survey data; racial composition in the target areas range from 98 percent white to 40 percent black.¶ Target neighborhoods were selected because they displayed lender and neighborhood group commitment to revitalization efforts, as well as essentially sound housing conditions. The City of St. Louis has agreed to commit a portion of its community development block grant (CDBG) funding to provide ancillary municipal improvements in program areas.§

Under the St. Louis pilot venture, FNMA has agreed to extend its secondary purchase activities in the designated neighborhoods. In addition to accepting FHA, VA and 95 percent conventional mortgages, FNMA is prepared to purchase conventionally backed loans with innovative terms, including standing mortgages, where the home owner may defer principal payments for a limited period; graduated payment plans, where the monthly payment is reduced during the early years of the mortgage and increases gradually thereafter; and second mortgages to be used to finance rehabilitation expenses over an extended amortization period.§§

To date, the FNMA pilot program has enjoyed a mixed record, at best. While only four financial institutions were active in the target area at the outset of the program, an additional fourteen

---

* *Ibid.*

** Statement of Mary Lee Widener, executive vice president, Neighborhood Housing Services of America, in *ibid.*, pp. 160-174.

† Urban Reinvestment Task Force, "Neighborhood Presentation Newsletter," Fall, 1977.

‡ *Housing and Urban Affairs Daily*, January 25, 1977.

¶ Data supplied by Federal National Mortgage Association, Office of Economic Analysis, October, 1977.

§ Interview with Beth Van Houten, Office of Corporate Relations, Federal National Mortgage Association, November 2, 1977; also correspondence to the author from Ms. Van Houten dated November 18, 1977.

§§ Federal National Mortgage Association, pamphlet, "St. Louis: A Pilot City Lending Program," (Washington, D.C., 1977).

lenders have agreed to participate in the demonstration.* Individual lending officers have applauded the opportunity to sell innovative conventional loans on the secondary market as a means to reduce risk, despite the fact that most St. Louis institutions would prefer to retain the loans they originate.**

At the same time, only fourteen loans had been developed under the St. Louis pilot program by August, 1977, only one of which had reached the FNMA purchase stage. FNMA officials have attributed the demonstration's sluggish start to the fact that while senior lending officers were themselves enthusiastic about the project, the word did not filter down to neighborhood loan offices.† Lenders, on the other hand, have expressed dissatisfaction with FNMA's secondary purchase procedures, which require additional property appraisals and homebuyer credit analyses.‡ Finally, some savings and loan associations have expressed doubt that the FHLBB will approve the origination of innovative conventional mortgages, particularly the standing mortgage option which freezes principal payments should the borrower suffer a financial reversal.¶

In sum, the FNMA pilot venture attempts to utilize the secondary mortgage market to reduce the risks of urban lending, and to tailor the mortgage instrument to meet the needs of low and moderate income borrowers. The former strategy is intended to increase the supply of inner-city mortgage moneys, while the latter would decrease the possibilities of borrower delinquency, default and foreclosure. Whether the program will be able to overcome its initial obstacles so as to allow for expansion, is still open to question.

B. A State-Sponsored Strategy: The New Jersey Mortgage Finance Agency

To reduce the risk of residential lending in declining urban neighborhoods, the New Jersey Mortgage Finance Agency (NJMFA) has marketed a $100 million bond issue, the proceeds of which are being used to back below market rate 7.5 percent mortgage loans in twenty-five New Jersey cities.

The emphasis of the NJMFA strategy is to stimulate the supply of mortgage funds to older metropolitan neighborhoods, by, in effect, becoming the mortgagee on loans originated by local institutions. Since the beginning of 1977, thirty-six associations have agreed to participate in the program. The risk-reduction emphasis of the program is evidenced by the fact that NJMFA-backed loans are amply secured. $14 million of the original bond issue has been placed in a debt service reserve fund, while $74 million of the mortgages originated under the program will be FHA or VA guaranteed.§

NJMFA has set a first year goal of $57.65 million in originations, $48 million of which will be federally insured. Preliminary data indicate that conventional originations are moving more quickly than FHA and VA secured loans, a predictable outcome given the more cumbersome processing procedures required on government guaranteed mortgages. Loan callings range from $45,000 for a single-family residence, to $56,000 for a four-unit structure.§§

Program officials and participating lenders view the NJMFA effort as a test of whether borrower demand can be stimulated in mortgage deficient areas. To encourage resident participation, NJMFA field personnel have been work-

---

* Interview with Beth Van Houten, *supra.*

** "Urban Lending Takes on A Fresh Look," *Savings and Loan News,* July, 1977. Reprinted in U.S. Congress, *op. cit.,* pp. 11-12.

† Nathaniel H. Rogg, *Urban Housing Rehabilitation in the United States* (Chicago, Illinois: U.S. League of Savings Associations, 1977), p. 59.

‡ *op. cit.*

¶ "Urban Lending Takes on A Fresh Look," *op. cit.,* p. 12.

§ *Loc. cit.*

§§ *Ibid.,* p. 8.

ing with municipal officials, neighborhood groups and realtors to publicize the program's details. To date, the majority of borrowers appear to be first-time homeowners, who were previously renting their units. The average age of principal borrowers has been around thirty-five, and the average combined household income $20,000, according to preliminary program statistics. A racial breakdown indicates that 40 percent of the borrowers are white, while 50 percent are black, and 10 percent Hispanic.*

As has been the case with the NHS and FNMA efforts, NJMFA moneys have been targeted to neighborhoods displaying essentially sound housing characteristics in which the municipal government has been actively pursuing a policy of upgrading. Participating jurisdictions have been encouraged to coordinate their CDBG activities with NJMFA efforts; those cities taking part in the $4 million state-sponsored Neighborhood Preservation Program (NPP), which makes additional funds available for home rehabilitation activities, have been urged to use NPP funds in NJMFA neighborhoods.

NJMFA officials have been sufficiently encouraged by 1977 program results to plan a second bond issue during 1978. Program expansion will enable the selection of mortgage-deficient target areas on the basis of state- compiled home loan disclosure data; by contrast, the 25 areas now eligible for NJMFA assistance were selected by the parent municipalities. The second year of the NJMFA effort is also expected to be marked by an increased reliance on homeownership counseling, in order to reduce the possibilities of default and foreclosure on program loans.

C. Locally-Sponsored Reinvestment Strategies

1. Savings Associations Financial Enterprises, Inc., Washington, D.C.

Savings Associations Financial Enterprises (Safe), Inc., is an equity-based service corporation backed by sixteen Washington, D.C. savings and loan associations. SAFE was chartered in 1972, pursuant to amendments in FHLBB regulations which permitted the establishment of statewide service corporations, to be financed on an equity basis by the member S & Ls.

The service corporation represents an innovative mechanism by which to promote inner city housing construction, rehabilitation, and mortgage lending, inasmuch as a "service corporation may conduct many types of business activity in addition to the mortgage lending activities of its stockholders." Additionally, the pooling of equity capital to finance the corporation's ventures represents a risk reduction arrangement in the promotion of urban housing activities which member institutions would be reluctant to take on independently.**

To date, SAFE has backed a variety of construction, rehabilitation and mortgage loan activites in depressed Washington neighborhoods. The emphasis has been on the provision of loans (about 100 annually) for the construction and rehabilitation of moderately priced units suitable for low to moderate income families. SAFE also arranges for permanent mortgage financing for the properties through one of its sixteen member associations.

While SAFE finances both small and large construction and rehabilitation projects, the group's executive vice-president, Peter Fuchs, notes that the time involved in packaging a small loan equals that of finalizing a larger commitment. Hence, several of SAFE's more notable accomplishments have been large-scale de-

---

* Interview with Aline Lenaz, Research Coordinator, New Jersey Mortgage Finance Agency, November 16, 1977.

** Peter R. Fuchs, "Savings and Loans are Getting Involved," *Journal of Housing*, February, 1976, p. 87.

velopments. A primary example was SAFE's provision of construction and permanent financing for a 175-unit townhouse project in southeast Washington. The project represented the first private construction investment in the Washington Highlands neighborhood in twenty years, and regenerated the single-family housing market in the area. By 1976, over 200 additional new homes were under development in Washington Highlands.

Over the past two years, SAFE has turned increasingly to cooperation with Washington's municipal government in order to provide least-cost housing units. According to Fuchs, high housing demand in the Washington metropolitan area, as well as limited land availability and soaring land prices have made the construction of moderate income housing exceedingly difficult. Thus, the lowest mortgage amount on a SAFE-financed, newly-constructed, low-cost property is normally as high as $36,000 to $40,000. In this context, government utilization of site donation and property tax abatement activities relative to newly-constructed and rehabilitated central city properties, is vital in keeping homeownership costs down for low and moderate income families.

A recent example of the benefits of government/private sector cooperation of this nature came with the remodeling of thirty-five three- and four-bedroom townshouses in Washington's Shaw Urban Renewal Area. The city government sold the units, all of which had been abandoned, to a limited-profit developer at below market prices of $2,000 to $3,000 each. SAFE and the District of Columbia Bankers' Association provided purchase and construction financing, while SAFE offered 30-year, 95 percent mortgages to eventual buyers. The city's write-down on the initial purchase prices permitted the sale of the rehabilitated units as well under market value, to families with incomes of $22,000 or less.*

SAFE's experience demonstrates that the innovative use of the service corporation concept can generate significant revitalization activity in the inner city. Most promisingly, SAFE's record indicates that this type of commitment by local S & Ls can generate new construction activity as well as increase the supply of mortgage credit in metropolitan neighborhoods.

2. *The Philadelphia Mortgage Plan, Philadelphia, Pennsylvania*

The Philadelphia Mortgage Plan (PMP) was launched in October, 1975 in response to community pressure that financial institutions provide increased supplies of mortgage moneys to declining Philadelphia neighborhoods. PMP is operated by a consortium of 15 lending institutions, including ten commercial banks, four mutual savings banks, and one savings and loan. To date, PMP members have originated $27.4 million in settlements in low income areas of Philadelphia.**

PMP differs from many anti-redlining strategies in that it operates on a city-wide basis, rather than in selected target neighborhoods. The program is characterized by the liberal lending guidelines which have been adopted in considering individual mortgage applications. Borrower income guidelines are flexible: PMP recognizes confirmed welfare income as well as the income of the borrower's spouse or co-mortgagor in evaluating the loan applications. Similarly, the relevant geographic criterion in appraising properties is the condition of the block on which a unit is situated, rather than the soundness of the entire neighborhood area.

Generally speaking, the prospects for PMP mortgage financing are most favorable for properties on blocks on which (1) the median property value is at least $6,000 and, (2) the combined abandonment and vacancy rates do not exceed 10 percent. Properties less favorably situated are

---

* "Recycling: Put New Life in the City" *Professional Builder*, May, 1977, p. 124.

** Philadelphia Mortgage Plan, *Philadelphia Mortgage Plan Report, October 9, 1975-October 1, 1977*, unpublished, p. 1.

also considered if the neighborhood has established a cohesive community organization, or if the area has been included in a housing rehabilitation effort. Mortgage ceilings have been imposed at $15,000, an amount which reflects the market value of much of Philadelphia's central city rowhouse stock. Ninety-five percent loan to value ratios are offered by the commercial and mutual savings institutions taking part in PMP; the participating S & L offers 90 percent loans.*

The PMP experience indicates that low and moderate income families, the bulk of whom are first-time homeowners, are capable of maintaining adequate mortgage credit records. Most family incomes range from $9,000 to $15,000, but the PMP default rate, excluding 30-day delinquencies, is only 1.21 percent. To date, the program has suffered only four foreclosures. While it should be noted that default and foreclosure rates tend to rise over the first five years of a loan, the PMP figures compare favorably with those reported by savings and loan associations, nationwide.

While PMP is not targeted to specific Philadelphia neighborhoods, project officials have encouraged resident interest in the venture by maintaining close ties with Philadelphia community organizations and neighborhood groups. Credit counseling for the PMP borrowers is available through the Philadelphia Housing Development Corporation, and the local Urban League. The project also enjoys a close working relationship with the Philadelphia NHS, with which it shares program offices.

At the same time, the PMP venture represents the commitment of only a handful of Philadelphia lending associations, all but one of which are commercial and mutual savings institutions. May Long of the PMP planning staff concedes that mortgage lending represents only a small fraction of the portfolios of the 14 PMP mutual savings and commercial institutions, allowing them to incur more risk in their mortgage lending practices than would smaller savings and loan association. And significantly, as noted above, the one S & L participating in the PMP plan offers somewhat lower loan to value ratios than the other PMP lenders.

To date, Philadelphia S & Ls, which make roughly 60 percent of the city's mortgage loans, have resisted formal affiliation with PMP, a fact which some consider an impediment to the plan's achieving its full potential.** According to Don McGill, president of the Savings and Loan Association of Delaware Valley, however, S & Ls already employ the same mortgage underwriting criteria as PMP, obviating the need for S & L participation in the program. McGill also argues that the forty independent Philadelphia S & Ls, which have one-third the assets of PMP lenders, are already making two-thirds the number of inner-city mortgages. Inasmuch as area S & Ls are already bearing their share of the mortgage market in the Philadelphia urban core, McGill contends, there is no need for formal S & L participation in PMP. By contrast, McGill is enthusiastic about Philadelphia S & L participation in NHS, which he feels enables lenders to make a decisive impact in selected target neighborhoods.†

In sum, the PMP experience indicates that low and moderate income families with little prior experience in dealing with mortgage credit procedures can prove viable lending risks. As does the NJMFA effort, the program also produces evidence that significant levels of homeownership demand, heretofore untapped, may be generated from within the inner city rental population.

---

* James Bodine, "Good for People, Good for Banks: The Philadelphia Mortgage Plan," *Banking Magazine*, July, 1977.

** "The Philadelphia Solution to Redlining," *Business Week*, May 9, 1977.

† Telephone interview with Don McGill, president, Savings and Loan Association of Delaware Valley, December 7, 1977.

At the same time, the PMP venture illustrates the reluctance of savings and loan associations to become involved in a city-wide reinvestment program, indicating that this approach appears more viable for commercial and mutual savings institutions which enjoy more diversified asset structures. Smaller S & Ls with relatively limited liquidity seem more receptive to the target area approach typified by NHS.

III. Policy Recommendations for Stimulating Urban Lending

1. Reinvestment efforts should be implemented at the local level, at minimum, or, ideally, at the neighborhood level.

An effective urban reinvestment strategy must overcome the "neighborhood effect" of urban decay: the propensity of individual property owners to disinvest in aging properties through a deliberate policy of under-maintenance. Again, the use of neighborhood associations seems to be the most promising way to commit area residents to a program of community preservation, inasmuch as a self-generated rehabilitation movement is more likely to stimulate enthusiasm than a similar program advanced by a higher unit of government. Also, a locally-sponsored or administered program represents the best mechanism by which to tailor a reinvestment program to neighborhood housing conditions. At minimum, then, reinvestment strategies should be implemented at the city, if not the neighborhood level.

2. The targeting of urban lending efforts to several selected neighborhoods will maximize chances of program success.

Targeting housing capital to a specific neighborhood or neighborhoods, rather than launching a city-wide program, seems the most promising strategy for a successful lending program. In addition to capturing the enthusiasm of indigenous community groups and neighborhood residents, the targeting method allows for the concentration of private credit and municipal services in a well-defined project area. A concentration of resources in this fashion will maximize the probability of reversing the decline process in the target area(s), and assure that the program makes visible inroads against decay. Indeed, the scarcity of municipal support services in many jurisdictions dictates a narrowly-defined urban reinvestment effort, if the requisite upgrading efforts are to be carried out effectively.

Risk reduction strategies may be implemented from both the supply and demand sides of the urban housing market. On the supply side, three risk reduction techniques are suggested by the above case studies. First, pooling arrangements for supplying housing credit have been adopted by the NHS system, SAFE, and PMP. The use of pooling assures the participation of a consortium of lending institutions in providing inner-city housing funds, thereby guaranteeing that no one lender will assume a disproportionate risk in financing reinvestment efforts.

The second risk reduction strategy is one of loan guarantees, wherein the reinvestment organization becomes, in effect, the mortgagee for program loans. The FNMA and NJMFA efforts represent two variations on this strategy. It appears likely that the polling approach will prove more broadly applicable than the loan guarantee strategy, inasmuch as most financial institutions prefer to retain the loans they originate. At the same time, the loan guarantee approach will likely prove appropriate in particularly high-risk areas, or as an inducement to lenders to undertake credit efforts which extend beyond well-defined target areas.

Third, financial institutions might consider revising the home credit instrument, along the lines suggested by the FNMA effort. A tailoring of the loan mechanism to meet the needs of low and moderate income families is likely to reduce default and foreclosure rates. Graduated payment mortgages would offer young families with prospects of rising future earnings increased opportunities for homeownership, while standing mortgages seem particularly appropriate for low and moderate income households.

From the demand side, homeownership counseling programs should be pursued vigorously, in order to reduce the prospects of default and foreclosure on program loans. Specialized staff should be retained for this purpose, whether they work under the aegis of a neighborhood association, the participating financial institutions, the parent municipality, or an independent reinvestment organization.

3. Government should play a catalytic role in fostering urban lending efforts.

Four of the five reinvestment models surveyed in above are essentially non-bureaucratic, independent organizations. The products of cooperation between the lending community, neighborhood residents, and municipal government. And while the NJMFA program is state-sponsored, the agency relies largely on the efforts of community organizations and participating lenders to publicize and implement the lending program.

The municipal government might profitably serve as the mediator between lenders and community groups in order to assure that a newly constituted reinvestment program meets the requirements of both parties. While the role of mediator might seem particularly unpalatable to local officials, the possibility of adverse popular impact may be minimized by delegating the management of such negotiations to professionals on the local planning staff.

Municipal governments can also expedite reinvestment efforts by the provision of services in target neighborhoods, and by coordinating locally-sponsored rehabilitation efforts with the reinvestment strategy. Similarly, local adoption of property tax abatement and land donation policies can reduce the costs of newly constructed and rehabilitated housing to lower income families. Finally, local officials can assist urban lending programs by providing professional support staff to conduct borrower counseling activities, and to monitor and revise, if necessary, program operations.

4. The financial regulatory agencies, particularly the Federal Home Loan Bank Board, should modify existing regulations to promote urban lending activities.

As the SAFE experience indicates, the formation of equity-financed service corporations can enhance S & L participation in the urban residential construction and home credit markets. The Federal Home Loan Bank Board should publicize the utility of such organizations, as well as modify existing regulations to expedite their creation at the local level.

Second, the reduction or abolition of existing reserve requirements applicable to lender origination of government-insured or guaranteed home loans would encourage the creation of loan-guarantee programs such as that sponsored by the NJMFA. As the U.S. League of Savings Associations suggested recently, this reform would spur the creation of state-sponsored plans to subsidize local urban lending efforts, and enhance lender willingness to participate in such efforts.

Finally, as suggested above, the financial regulatory agencies should amend existing regulations to permit the introduction of innovative lending techniques to render the mortgage instrument more responsive to the needs of lower income families.

Conclusion

As the above review of positive reinvestment strategies indicates, the most promising anti-redlining programs tend to be carried out by quasi-public, independent organizations which tap private capital to augment the supply of inner-city housing credit. In essence, then, the anti-redlining movement is a conservative one, in that it seeks to strengthen the role of private sector in the metropolitan housing market, rather than to supplant private investment with government funds. Even the NJMFA program is likely, in the long run, to be judged by its success in stimulating sustained, private investment in New Jersey's urban neighborhoods.

Inasmuch as the private sector is more fully equipped than the public sector to provide hous-

ing credit in amounts sufficient to stimulate metropolitan revitalization, the market-oriented strategy appears wise. Hence, the policy recommendations offered above are intended to improve the operation of the marketplace in the provision of housing credit, perfecting both supply and demand forces. Accordingly, it has been suggested that government participation in reinvestment strategies be directed toward facilitating the desired market response, rather than toward substituting scarce public resources for potentially available private capital.

Of course, the ultimate objective of the private sector approach is to perfect market procedures to stimulate adequate levels of sustained housing investment in older metropolitan neighborhoods. Ironically, then, the success of an urban reinvestment organization would best be realized by the absorption of its functions into customary market operations, indeed, by its own obsolescence.

XII

1977 FEDERAL POLLUTION CONTROL AMENDMENTS*

In 1977 Congress enacted amendments to the two major federal laws which regulate air and water pollution: the Clean Air Act and the Federal Water Pollution Control Act. On the basis of the country's recent performance in pollution control, the 1977 amendments attempt to update and modify the objectives of the original legislation and previous amendments. The purpose of this brief discussion is to outline the major provisions of these laws and to evaluate their impact on New Jersey's urban economic recovery prospects.

Considerable confusion has existed in evaluating New Jersey's role in environmental protection. Frequent criticism is made of the Department of Environmental Protection's pollution control efforts as "anti-business" or "against economic development." In actual fact, however, the State has less flexibility and discretion in environmental quality regulation than is commonly recognized since New Jersey must conform to the requirements of federal legislation. The confusion arises because, although the federal laws establish national environmental objectives, they at the same time rely upon *and require* the individual states to develop, implement and enforce the necessary policies and regulations to achieve the federally mandated goals. Accordingly, the State is often the immediate and convenient target of criticism in its role as regulator and enforcer, although the real authority is to be found in the underlying federal requirements which apply to all states.

Air Quality

The 1977 amendments to the Clean Air Act extend the original 1977 deadline of achieving ambient air quality standards for the six major air pollutants.** Primary standards for these pollutants are now to be met nationally by 1982. The amendments also extend the time requirement for auto emission control for an additional two years but provide, at the same time, for more stringent standards than previously mandated.

In terms of administrative responsibilities, the amendments retain and even strengthen the general reliance on state implementation plans to achieve the national ambient air quality standards. A further major provision of the new legislation is the clarification of pollution control policy as it applies to new sources of emissions. This aspect of the legislation has important implications for New Jersey and its urban areas.

The amendments specifically indicate that in those areas of the country where air quality is

---

* Prepared by Dr. Joseph J. Seneca, Chairman, Economic Policy Council.

** The six pollutants are sulfur dioxide, carbon monoxide, hydrocarbons, particulates, nitrogen dioxide and photochemical oxidants (ozone).

currently *better than* the national standards, state plans must provide protection for these areas against any "significant" deterioration in air quality. Areas now complying with the standards are to be designated as Class I, II or III and once they are classified, they are then subject to *maximum* limits on the additional amounts of sulfur dioxide and particulates that can be discharged within them. Furthermore, in two years, the (federal) Environmental Protection Agency is required to set limitation restrictions on the remaining major pollutants.

On balance, this provision may assist New Jersey's efforts to retain its existing industries since clean air regions in other states, particularly the South and Southwest, will not be allowed to permit air quality to deteriorate to the standards. Rather, the amendments require that these states must make any new industrial emission source adopt control measures which will avoid any significant air quality deterioration in the region. Accordingly, the result will be a narrowing of interstate differences in industrial pollution control costs.

However, in those geographical areas where air quality standards for various pollutants are not currently being met, such as New Jersey, the amendments have less favorable implications. In such "non-attainment" areas as they are called, the addition of any new stationary source of emissions can only occur if there is a *complete* offset against the new emissions from other existing emission sources in the area. Moreover, the specific pollutant at issue must still be controlled by technology that achieves the lowest emission rate possible for that pollutant.*

The amendments go on to place the burden of proof on the new or expanding firm to demonstrate that there is an offset of an equal or greater amount of emissions elsewhere in the region. Thus, for example, a new firm could "buy" another firm's pollution and process that pollution in order to provide the required offset, or it could obtain agreement from other emission sources in the area to provide additional treatment of their emissions or to modify their operations in such a way as to simply generate less pollution. Another possibility is the intervention by state authorities, who might simply require existing pollution sources to increase their pollution treatment in order to accommodate the emissions of the new or expanding firm. In New Jersey, the Department of Environmental Protection is developing the idea of an "emission bank" whereby emission reductions achieved by the attrition of firms, improved treatment by existing sources and for other reasons can be credited or inventoried against *potential* future emissions of new or expanding firms.

In general, New Jersey's air quality record is a good one considering its small size, its population density and the presence of substantial heavy industry, and all of this located within the generally industrialized and heavily populated Northeast. Evidence shows that New Jersey complies with the national standards for sulfur dioxide and nitrogen dioxide and has only a few problem areas in achieving the standard for particulate matter. Carbon monoxide is, however, a major problem throughout the State, particularly in urban areas. Emissions of this pollutant are almost entirely due to motor vehicles and significant future improvements are expected from the motor vehicle exhaust inspection program, better traffic system management and the phased tightening of emission performance requirements on all new motor vehicles as embodied in the amendments to the Clean Air Act.

New Jersey's most difficult air quality problem, in terms of its implications for business activity, concerns ozone and hydrocarbons. Ozone levels over most urban areas of the State often exceed the national primary standard (160 micrograms per cubic meter for 1 hour) by a factor of several times. The result of this violation of the federal standard is that for this pollutant (and its precursors), large areas within the State are designated as "non-attainment" areas. Accordingly, the State *is required* by the federal legislation, to submit to the EPA for its approval (by January 1979) an implementation

* This is the so-called "best available" emissions control technology for all new pollution sources.

plan that provides for the achievement of the national standards. If this plan is not approved by the EPA, no new emission source (or expansion of an existing source) which contributes to ozone pollution will be permitted to occur. In addition, the Clean Air Act gives authority to the EPA to develop *and impose* its own plan upon the State in order to achieve the standard.

The problem pollutant, ozone, is formed by an atmospheric reaction between sunlight and certain organic compounds (hydrocarbons and nitrogen oxides). It has known deleterious health effects that include the severe aggravation of respiratory and cardiovascular illnesses. In addition, it is responsible for significant damage to property, crops and vegetation. The basic precursors of ozone, hydrocarbons and nitrogen oxides, are generated by industrial sources as well as motor vehicles. Unfortunately the major industrial sources of hydrocarbon emissions in New Jersey also represent a large and important component of the State's manufacturing economy—chemical production and petroleum refining*—and are generally located in urban areas.

In order to minimize the cost impact on industry of additional hydrocarbon control, the State could move to tighten further the emission testing procedures for motor vehicles, the other major source of hydrocarbon and nitrogen oxide discharges. A major difficulty here, however, is the use of New Jersey roads, particularly the Turnpike, the Garden State Parkway, the interstate system and the cross state highways by significant numbers of out-of-state vehicles. Unless nearby states adopt similar motor vehicle emission testing and maintenance procedures, New Jersey's efforts to reduce further hydrocarbon (and other auto pollutant) emissions by tightening its own requirements will result in ever smaller gains in air quality levels.

In addition, New Jersey must face the politically difficult task of attempting to insure that other states also comply with the federal standards for stationary pollution sources and meet their own EPA approved time schedules for hydrocarbon reduction.** To assist the State in these difficult problems, the 1977 amendments contain provisions, in part due to the insistence of Governor Byrne and the DEP, that require a faster adoption of national emission standards on all new sources of air pollution. Achieving national standards on specific emission sources will eliminate differences in interstate pollution control costs. The amendments also provide that the Governor of any state can formally petition the EPA to establish such national standards if there is any unseemingly delay by the EPA in doing so.

Water Quality

A major feature of the 1977 amendments to the Federal Water Pollution Control Act authorizes $24.5 billion to finance sewage treatment plants over the next five years. New Jersey has recently received significant amounts of federal moneys to construct and improve sewage facilities throughout the State including several major projects in urban areas.

The water amendments also postpone for one year the original 1983 deadline requiring industrial pollution sources to use the "best available" treatment technology. The new legislation goes on to distinguish among different types of pollutants and gives priority to the control of toxic substances (e.g., arsenic, mercury, lead, zinc) while more flexibility in achieving the "best technology" is allowed for the conventional organic pollutants.

The discretion available to the State in water pollution control is perhaps even less than for air quality. National emission standards are established in the legislation (the "best available" provision) and the timetable is also mandated. Differences among states in the timing of actually achieving the "best" would appear to offer possi-

---

* Together, these two industries represent over 18% of the State's manufacturing employment.

** In fact, New Jersey's prevailing downwind position from Ohio and Pennsylvania implies that the State literally cannot solve many of its air pollution problems without compliance by these other states with the federal standards; compliance thus far, that has not occurred.

ble interstate pollution control cost incentives to industry; but such incentives are likely to be only of a temporary rather than a permanent nature. Accordingly, there seems to be no major interstate effects in the water amendments that would work against economic activity in New Jersey or the State's urban economic development vis-à-vis other states and urban areas.

XIII

APPENDIX

STATISTICAL TABLES

TABLE 1

POPULATION AND EMPLOYMENT, NEW JERSEY, 1956-1977

Year	Resident Population	Work/Labor Force*	Total Employment	Unemployment		Insured Unemployment Rate (Percent)
	In Thousands			Number (000)	Rate (Percent)	
1956	5,516,100	2,406.6	2,263.2	138.6	5.8	4.6
1957	5,631,700	2,448.1	2,290.0	156.8	6.4	5.3
1958	5,739,800	2,472.6	2,248.1	222.5	9.0	7.6
1959	5,960,000	2,483.1	2,303.2	175.5	7.1	5.5
1960	6,070,780	2,507.4	2,337.2	168.5	6.7	5.7
1961	6,222,160	2,543.5	2,355.9	185.5	7.3	6.0
1962	6,370,650	2,575.1	2,415.0	159.0	6.2	5.2
1963	6,503,190	2,618.4	2,447.9	168.8	6.4	5.4
1964	6,614,560	2,655.5	2,489.6	162.1	6.1	4.8
1965	6,720,300	2,724.5	2,582.2	140.0	5.1	3.9
1966	6,821,050	2,790.3	2,665.3	122.6	4.4	3.2
1967	6,917,450	2,803.0	2,701.0	102.0	3.6	3.4
1968	7,012,750	2,829.0	2,730.0	99.0	3.5	3.3
1969	7,103,310	2,898.0	2,805.0	93.0	3.2	3.3
1970	(R)7,190,000	2,985.0	2,849.0	137.0	4.6	4.4
1971	(R)7,290,000	3,002.0	2,831.0	171.0	5.7	5.4
1972	(R)7,333,000	3,105.0	2,924.0	181.0	5.8	5.1
1973	(R)7,331,000	3,176.0	2,998.0	179.0	5.6	4.7
1974	(R)7,329,000	3,213.0	3,010.0	203.0	6.3	5.7
1975	(R)7,333,000	3,250.0	2,917.0	333.0	10.2	7.8
1976	(R)7,339,000	3,305.0	2,961.0	345.0	10.4	6.4
1977	(P)7,329,000	3,367.0	3,051.0	316.0	9.4	5.6

* For data prior to 1970, persons involved in labor-management disputes are included in total workforce and excluded from employment and unemployment. After 1969, persons involved in labor-management disputes are included in employment.

NOTES:

The rate of insured unemployment is based on weekly averages of insured unemployment (State UI Program) expressed as a percent of the average total number of jobs covered by the State Unemployment Compensation Program.

Work/labor force, employment, and unemployment estimates are adjusted to 1976 employment benchmarks.

Labor force estimates for 1970 to 1977 are obtained directly from current Population Survey conducted for the U.S. Department of Labor.

All population data as of July 1; population estimates are not strictly comparable over time because of changes in estimating methodology.

Annual averages may not add due to rounding.

(R)—Revised.

(P)—Provisional.

Source: N.J. Department of Labor and Industry, Division of Planning and Research.

TABLE 2
WAGE AND SALARY WORKERS IN NONAGRICULTURAL ESTABLISHMENTS, MAJOR INDUSTRY DIVISIONS, NEW JERSEY, 1947-1977
(In thousands)

Year	*Total Non-Agricultural Payroll Employment*	*Manufacturing*	*Mining*	*Contract Construction**	*Transportation and Public Utilities*	*Wholesale and Retail Trade*	*Finance, Insurance and Real Estate**	*Services and Miscellaneous**	*Government*
1947	1,622.6	782.6	4.0	65.4	142.2	249.7	63.1	158.8	156.8
1948	1,657.1	786.3	4.1	74.6	141.0	260.5	67.0	163.7	159.9
1949	1,595.6	721.8	4.0	72.5	134.0	264.5	66.5	166.2	166.1
1950	1,657.1	756.4	4.3	81.2	135.4	273.7	68.3	166.8	171.0
1951	1,768.1	821.2	4.5	95.4	143.9	285.8	69.8	169.8	177.7
1952	1,804.0	832.9	4.6	91.9	146.7	295.6	70.7	174.0	187.6
1953	1,850.2	856.2	4.7	90.3	147.8	303.4	73.6	180.6	193.6
1954	1,820.8	802.1	4.3	93.6	146.1	312.4	76.1	186.0	200.2
1955	1,865.3	811.1	4.0	98.7	148.4	322.5	78.8	195.4	206.4
1956	1,933.5	834.8	4.3	100.7	153.8	336.6	81.8	208.4	213.1
1957	1,968.3	835.0	4.4	96.2	154.3	349.1	85.4	222.7	221.2
1958	1,911.3	775.4	3.7	88.6	148.2	351.2	86.7	230.5	227.0
1959	1,970.5	801.3	3.6	95.7	147.0	360.5	87.3	241.6	233.5
1960	2,017.1	808.6	3.5	98.1	149.5	374.6	88.6	252.0	242.2
1961	2,033.7	791.1	3.4	99.4	150.1	380.7	91.2	264.2	253.6
1962	2,096.1	812.8	3.4	100.7	150.8	393.3	93.4	278.9	262.8
1963	2,129.3	809.1	3.5	100.2	151.9	405.5	95.5	291.5	272.1
1964	2,168.5	806.2	3.6	105.7	153.4	420.2	97.8	301.6	280.0
1965	2,256.4	836.7	3.5	109.3	157.0	439.0	99.9	315.6	295.4
1966	2,358.4	878.2	3.0	109.8	162.2	460.0	102.4	330.8	312.0
1967	2,420.9	881.9	2.8	111.0	166.3	472.1	106.0	351.6	329.2
1968	2,485.4	886.2	3.1	114.3	166.3	489.7	109.7	372.6	344.4
1969	2,570.9	893.6	3.3	116.8	176.2	515.1	112.6	393.2	360.1
1970	2,608.6	863.0	3.2	119.2	182.2	538.2	117.7	410.4	374.8
1971	2,611.8	822.2	3.0	116.3	181.1	558.4	121.7	421.2	388.0
1972	2,672.5	823.3	3.2	121.6	181.2	577.3	124.6	436.0	405.3
1973	2,759.7	842.6	3.3	126.8	186.4	596.9	131.0	455.7	417.1
1974	2,783.0	825.9	3.2	118.7	185.8	603.5	136.5	469.5	439.9
1975	2,701.0	748.2	2.8	99.2	174.3	599.3	135.2	472.1	470.0
1976	2,755.5	756.8	2.7	93.9	176.0	618.5	138.2	489.6	479.8
1977	2,844.9	768.7	2.9	96.1	179.9	636.9	143.7	516.4	500.3

Series have been adjusted to March 1977 benchmarks.
SOURCE: N.J. Department of Labor and Industry, Division of Planning and Research.
* Not precisely comparable with pre-1972 data.

TABLE 3

WAGE AND SALARY WORKERS IN MANUFACTURING, DURABLE GOODS, NEW JERSEY, 1947-1977

(In thousands)

Year	Total Durable Goods	Lumber and Wood Products*	Furniture and Fixtures*	Stone, Clay and Glass Products	Primary Metal Industries*	Ordnance and Fabricated Metals*	Machinery, Except Electrical*	Electrical Machinery*	Transportation Equipment	Instruments and Related Products*	Miscellaneous Manufacturing Industries
1947	403.0	6.9	7.7	31.0	45.8	45.7	56.0	108.9	47.4	18.2	35.5
1948	397.2	7.0	8.2	31.4	44.2	44.3	53.8	106.7	45.9	18.8	36.9
1949	346.1	6.5	7.6	29.0	37.6	40.7	48.8	87.3	37.5	17.9	33.2
1950	372.3	6.8	8.9	31.7	40.5	44.2	49.9	97.2	40.1	17.8	35.3
1951	427.9	7.1	9.1	35.3	46.5	48.3	60.0	115.1	47.5	22.4	36.6
1952	446.6	6.4	8.5	33.4	45.3	50.5	61.7	121.7	60.2	24.7	34.3
1953	470.4	6.3	8.6	33.8	46.2	57.2	64.0	132.5	62.7	26.5	32.6
1954	431.3	6.4	8.2	32.5	42.6	54.6	60.6	116.7	56.5	24.9	28.3
1955	435.5	6.4	8.5	34.1	43.9	55.7	59.1	117.5	57.1	25.3	27.8
1956	455.9	6.4	9.1	34.3	47.3	55.5	65.8	124.3	57.4	27.9	27.9
1957	457.3	6.3	9.2	33.9	46.9	56.7	65.5	125.6	55.9	29.4	27.9
1958	411.9	5.6	8.7	31.9	40.9	50.9	57.0	115.0	48.7	27.4	25.8
1959	430.5	5.9	9.2	33.1	41.7	53.7	57.8	121.4	50.5	30.2	27.0
1960	436.5	5.7	9.8	33.7	42.6	54.2	61.0	122.3	48.5	31.7	26.8
1961	421.3	5.6	9.0	34.4	40.7	53.6	57.3	119.5	41.7	31.9	27.6
1962	436.1	5.8	9.7	34.6	40.1	55.6	60.3	125.2	42.5	32.4	29.9
1963	425.7	5.7	8.9	34.9	38.6	55.2	60.1	121.7	39.0	32.9	28.7
1964	418.6	5.6	9.0	35.6	37.9	56.7	61.4	115.1	35.6	31.0	30.7
1965	438.1	5.6	9.4	36.9	39.8	60.2	65.4	118.4	36.8	32.7	32.9
1966	462.5	5.2	10.5	39.3	40.4	63.8	70.8	129.9	36.4	34.3	31.9
1967	463.9	5.0	11.0	39.1	38.6	65.4	75.0	131.2	32.0	36.5	30.0
1968	460.8	5.3	10.2	38.8	38.5	67.0	75.8	128.1	31.7	35.8	29.7
1969	463.8	5.2	11.0	40.9	39.4	69.2	76.2	125.6	31.4	34.7	30.2
1970	435.4	4.9	10.5	39.6	37.2	66.4	72.8	116.9	26.3	33.2	27.5
1971	406.7	4.5	10.6	39.0	33.4	62.4	66.3	106.9	25.3	32.4	25.8
1972	405.8	5.1	10.8	39.9	31.8	63.5	65.8	102.9	25.7	35.0	25.2
1973	420.5	5.3	10.6	40.8	32.0	66.2	72.1	108.1	25.3	34.4	25.9
1974	413.2	5.0	10.3	40.5	31.2	64.4	76.1	105.1	21.1	33.9	25.6
1975	363.3	4.6	8.9	36.0	26.1	58.1	68.4	88.3	19.3	31.2	22.4
1976	363.3	5.3	8.7	36.1	23.9	59.4	67.2	87.5	19.8	31.3	24.0
1977	369.5	5.8	9.0	35.4	22.8	61.0	69.3	89.1	21.0	31.9	24.2

Series have been adjusted to March 1977 benchmarks.

SOURCE: N.J. Department of Labor and Industry, Division of Planning and Research.

* Not precisely comparable with pre-1972 data.

TABLE 4
WAGE AND SALARY WORKERS IN MANUFACTURING, NONDURABLE GOODS, NEW JERSEY, 1947-1977
(In thousands)

Year	Total Nondurable Goods	Food and Kindred Products	Tobacco Manufactures	Textile Mill Products	Apparel and Related Products	Paper Allied Products	Printing, Publishing and Allied Industries	Chemicals and Allied Products*	Petroleum Refining and Related Industries	Rubber and Miscellaneous Plastic Products*	Leather and Leather Products
1947	379.6	56.9	5.5	61.1	78.9	21.7	18.6	80.1	15.6	29.5	11.7
1948	389.1	57.1	5.1	64.7	85.6	22.2	19.9	77.6	16.2	28.4	12.3
1949	375.7	55.9	4.9	57.8	88.9	21.8	21.4	71.9	16.3	24.7	12.1
1950	384.1	56.5	4.6	58.2	89.0	23.5	22.8	73.7	16.5	26.4	12.9
1951	393.3	59.8	4.4	53.7	89.8	24.8	23.4	79.1	17.3	28.4	12.6
1952	386.3	61.3	4.4	50.1	88.7	24.2	23.5	78.5	16.3	27.3	12.1
1953	385.8	60.9	4.3	48.3	85.0	26.5	24.8	79.2	16.4	28.4	12.0
1954	370.8	62.2	4.0	41.9	79.7	26.0	25.9	78.0	15.2	26.7	11.2
1955	375.6	61.7	3.4	42.7	79.6	26.3	27.1	80.8	14.5	27.5	11.9
1956	378.9	63.5	2.6	41.6	79.7	27.2	28.1	81.8	14.3	28.3	11.8
1957	377.7	62.9	2.0	38.6	79.2	28.3	30.5	83.3	13.8	27.7	11.4
1958	363.5	62.9	1.9	33.0	76.7	28.0	30.3	80.8	12.3	26.6	11.1
1959	370.8	62.3	1.8	33.2	79.2	28.3	31.5	82.4	11.7	29.3	11.1
1960	372.1	62.9	1.7	31.4	77.7	28.0	32.3	86.4	11.5	29.2	11.0
1961	369.8	63.9	1.6	29.1	76.4	28.1	32.6	87.0	11.1	29.2	10.8
1962	376.7	64.2	1.5	28.6	75.8	29.7	33.0	91.0	10.7	30.7	11.5
1963	383.4	64.9	1.4	27.9	74.5	31.4	34.6	94.8	10.5	31.7	11.7
1964	387.6	65.0	1.5	27.8	74.6	31.5	35.8	96.4	9.6	34.2	11.2
1965	398.6	66.4	1.4	28.5	77.3	31.3	37.5	98.9	9.8	36.0	11.5
1966	415.7	67.2	.8	29.6	80.3	33.0	39.6	105.5	10.3	37.2	12.2
1967	418.1	65.3	.6	29.1	78.5	33.7	41.5	110.9	9.5	37.7	11.3
1968	424.6	64.5	.3	30.5	78.7	34.3	42.2	113.3	9.6	39.9	11.5
1969	429.9	63.2	.3	30.8	77.2	35.0	43.3	118.2	9.8	41.4	10.6
1970	427.6	63.5	.3	29.6	72.3	35.3	44.8	122.3	10.6	40.0	9.6
1971	415.5	61.7	.3	29.4	68.9	35.9	43.7	119.5	10.1	36.8	9.4
1972	417.5	59.8	.3	30.5	68.9	35.9	46.0	119.4	10.6	37.2	8.9
1973	422.1	58.7	.2	31.3	68.7	36.8	46.9	124.1	10.9	35.5	9.0
1974	412.7	56.7	.2	28.8	63.1	35.4	47.8	126.6	11.8	34.0	8.4
1975	384.9	53.6	.2	24.5	57.9	32.1	46.4	121.0	12.1	29.3	7.9
1976	393.5	52.7	.3	23.9	61.1	33.3	47.4	122.6	11.9	32.0	8.4
1977	399.2	50.8	.2	22.8	59.8	33.5	49.5	128.0	12.2	34.4	8.1

Series have been adjusted to March 1977 benchmarks.
SOURCE: N.J. Department of Labor and Industry, Division of Planning and Research.
* Not precisely comparable with pre-1972 data.

TABLE 5

EMPLOYMENT, HOURS, AND EARNINGS OF PRODUCTION WORKERS ON MANUFACTURING PAYROLLS, NEW JERSEY, 1947-1977

Year	*Employment (thousands)*	*Average Weekly Hours*	*Average Weekly Earnings (dollars)*	*Average Hourly Earnings (dollars)*
1947	n.a.	40.7	52.26	1.28
1948	n.a.	40.5	56.37	1.39
1949	n.a.	39.4	56.97	1.45
1950	n.a.	40.8	61.65	1.51
1951	n.a.	41.1	67.28	1.65
1952	n.a.	41.1	71.02	1.73
1953	n.a.	40.9	74.32	1.82
1954	n.a.	39.8	74.43	1.87
1955	n.a.	40.7	79.16	1.94
1956	n.a.	40.5	82.98	2.05
1957	n.a.	39.9	85.23	2.14
1958	563.7	39.4	86.80	2.20
1959	583.8	40.3	92.45	2.29
1960	580.8	39.6	93.93	2.37
1961	563.1	40.0	97.60	2.44
1962	576.0	40.5	101.66	2.51
1963	567.5	40.5	104.90	2.59
1964	564.4	40.6	108.40	2.67
1965	587.1	41.0	112.34	2.74
1966	616.5	41.3	117.29	2.84
1967	616.7	40.6	118.96	2.93
1968	616.9	40.7	125.76	3.09
1969	621.3	40.8	132.60	3.25
1970	592.6	40.3	139.44	3.46
1971	564.4	40.4	150.29	3.72
1972	561.1	40.9	163.35	3.99
1973	582.3	41.4	176.41	4.26
1974	559.8	40.7	186.11	4.57
1975	494.8	39.9	199.68	4.99
1976	501.0	40.4	215.71	5.33
1977	513.0	41.3	239.79	5.80

FOOTNOTE
n.a.—not available.
Series have been adjusted to March 1976 benchmarks.
SOURCE: N.J. Department of Labor and Industry, Division of Planning and Research.

TABLE 6

CONSUMER PRICE INDEXES*
FOR URBAN WAGE EARNERS AND CLERICAL WORKERS

(1967 = 100.0)

Year	United States	New York SCA[a]	Philadelphia SMSA[b]
1947	66.9	67.0	66.4
1948	72.1	71.5	71.7
1949	71.4	70.7	70.9
1950	72.1	71.2	71.3
1951	77.8	76.5	77.9
1952	79.5	77.7	79.5
1953	80.1	78.2	79.8
1954	80.5	78.7	80.7
1955	80.2	78.2	80.6
1956	81.4	79.4	81.6
1957	84.3	82.0	84.2
1958	86.6	84.5	85.8
1959	87.3	85.6	86.8
1960	88.7	87.3	88.4
1961	89.6	88.1	89.4
1962	90.6	89.4	90.1
1963	91.7	91.3	91.8
1964	92.9	92.8	93.2
1965	94.5	94.3	94.7
1966	97.2	97.5	97.3
1967	100.0	100.0	100.0
1968	104.2	104.3	104.8
1969	109.8	110.8	110.4
1970	116.3	119.0	117.8
1971	121.3	125.9	123.5
1972	125.3	131.4	127.0
1973	133.1	139.7	135.5
1974	147.7	154.8	151.6
1975	161.2	166.6	164.2
1976	170.5	176.3	172.4
1977	181.5	185.5	183.5

FOOTNOTES

[a] Standard Consolidated Area: New York-Northeastern New Jersey including Bergen, Essex, Hudson, Middlesex, Morris, Passaic, Somerset, and Union counties.

[b] Standard Metropolitan Statistical Area, including Camden, Burlington, and Gloucester counties.

* Annual averages.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics.

Prepared by N.J. Department of Labor and Industry, Division of Planning and Research.

TABLE 7

PERSONAL INCOME, NEW JERSEY AND UNITED STATES, 1948-1977

Year	Total Personal Income (millions of current dollars)		Per Capita Personal Income (current dollars)		Per Capita Personal Income (1967 dollars)	
	New Jersey	United States	New Jersey	United States	New Jersey[a]	United States[b]
1948	8,063	208,876	1,689	1,430	2,359	1,983
1949	8,131	205,793	1,663	1,384	2,349	1,938
1950	8,541	226,214	1,753	1,496	2,460	2,075
1951	10,151	253,232	2,028	1,652	2,627	2,123
1952	10,934	269,769	2,134	1,733	2,715	2,180
1953	11,750	285,456	2,247	1,804	2,844	2,252
1954	11,957	287,607	2,231	1,785	2,799	2,217
1955	12,688	308,266	2,306	1,876	2,904	2,339
1956	13,719	330,479	2,443	1,975	3,035	2,426
1957	14,550	348,460	2,536	2,045	3,052	2,426
1958	14,883	359,958	2,527	2,067	2,968	2,387
1959	15,976	383,765	2,656	2,167	3,081	2,482
1960	16,645	399,947	2,727	2,222	3,104	2,505
1961	17,461	415,984	2,787	2,274	3,140	2,538
1962	18,619	442,078	2,920	2,381	3,253	2,628
1963	19,573	465,234	2,997	2,469	3,274	2,692
1964	20,819	497,268	3,126	2,603	3,361	2,802
1965	22,486	538,690	3,323	2,785	3,516	2,947
1966	24,254	586,736	3,540	3,001	3,635	3,087
1967	26,175	629,204	3,778	3,188	3,778	3,188
1968	28,589	688,978	4,081	3,457	3,903	3,318
1969 (R).	30,930	738,233	4,359	3,667	3,941	3,340
1970 (R).	33,680	793,485	4,684	3,893	3,956	3,347
1971 (R).	36,181	851,952	4,967	4,132	3,983	3,406
1972 (R).	39,029	935,463	5,326	4,493	4,122	3,586
1973 (R).	42,528	1,045,098	5,807	4,980	4,220	3,742
1974 (R).	46,321	1,147,257	6,326	5,428	4,129	3,675
1975 (R).	49,758	1,246,501	6,786	5,851	4,103	3,630
1976 (R).	54,325	1,372,833	7,405	6,396	4,247	3,751
1977 (P).	59,999	1,526,457	8,186	7,057	4,437	3,888

FOOTNOTES

[a] The average of the Consumer Price Indexes for the New York Standard Consolidated Area and the Philadelphia SMSA was used to express New Jersey per capita personal income in constant 1967 dollars.

[b] The Consumer Price Index for the United States was used to express United States per capita personal income in constant 1967 dollars.

(R) Revised estimates. Estimates of total and per capita personal income for 1969-77 have been revised to reflect the changes in annual State personal income that were made to incorporate the 1976 benchmark revisions in the national income and product accounts. Estimates prior to 1969 have not been revised and are not directly comparable to those for 1969 to 1977.

(P) Preliminary estimates.

SOURCES: U.S. Department of Commerce; U.S. Department of Labor, Bureau of Labor Statistics. Prepared by N.J. Department of Labor and Industry, Division of Planning and Research.

TABLE 8
PRODUCTION AND TRADE, NEW JERSEY, 1948-1977

Year	Electric Power Sales			Highway Gasoline Consumption	Value of New Dwelling Units Authorized	Construction Contracts Awarded	Retail Store Sales*	Registration of New Vehicles	
	Total	Large Industrial and Commercial Users	Small Industrial and Commercial Users					Passenger Cars	Commercial Vehicles
	(kilowatt hours in thousands)			(000 gal.)	($000)	($000)	($000,000)	(number)	(number)
1948	6,887,131	3,736,931	1,359,854	.....	n.a.	406,476	n.a.	116,847	25,504
1949	7,026,664	3,578,396	1,483,196	1,068,493	n.a.	408,007	n.a.	165,179	23,544
1950	8,023,122	4,161,454	1,630,075	1,184,769	n.a.	747,771	n.a.	210,436	27,229
1951	8,944,201	4,648,835	1,806,808	1,272,802	n.a.	676,458	n.a.	178,862	25,002
1952	9,578,722	4,837,880	1,969,215	1,352,498	n.a.	690,770	n.a.	149,168	19,335
1953	10,435,872	5,191,330	2,180,598	1,429,005	n.a.	793,889	n.a.	208,313	23,048
1954	10,931,039	5,214,694	2,348,391	1,571,234	n.a.	886,947	n.a.	207,242	20,601
1955	12,184,077	5,874,199	2,584,701	1,678,675	n.a.	1,010,459	n.a.	258,079	22,262
1956	13,224,653	6,323,544	2,807,035	1,739,307	n.a.	1,106,452	n.a.	219,297	21,903
1957	14,196,487	6,642,234	3,097,755	1,741,173	n.a.	1,048,449	n.a.	219,865	20,320
1958	14,949,906	6,829,115	3,322,774	1,788,806	n.a.	1,143,484	n.a.	183,770	17,616
1959	16,632,611	7,683,942	3,719,151	1,902,985	n.a.	1,303,736	n.a.	219,305	20,374
1960	17,569,054	8,125,141	3,967,306	1,939,472	497,534	1,256,532	n.a.	266,299	22,532
1961	19,248,349	8,730,727	4,471,379	1,961,542	553,029	1,307,832	n.a.	250,432	24,606
1962	20,630,556	9,506,486	4,848,024	2,005,449	549,825	1,392,618	n.a.	285,955	24,713
1963	22,077,818	10,108,217	5,309,982	2,095,302	608,660	1,534,448	8,992	318,127	26,804
1964	23,848,214	10,773,759	5,872,988	2,161,239	704,809	1,622,048	9,768	325,293	28,417
1965	25,964,004	11,712,402	6,433,961	2,277,979	727,586	1,555,689	10,396	378,768	30,980
1966	28,512,856	12,814,406	7,043,455	2,295,753	588,874	1,651,494	10,711	352,573	31,072
1967	30,146,448	13,147,596	7,620,829	2,360,627	572,646	1,906,577	10,947	302,680	27,471
1968	32,616,153	13,863,329	8,394,581	2,496,057	597,980	2,380,846	12,030	356,762	30,724
1969	35,637,643	15,042,515	9,214,088	2,584,111	562,616	2,205,705	12,582	356,583	34,616
1970	38,156,144	15,394,352	10,185,005	2,736,672	599,034	2,740,746	14,274	348,304	36,027
1971	39,919,508	15,564,483	11,056,580	2,843,883	876,144	2,409,797	15,359	370,004	35,255†
1972	42,318,122	16,192,817	12,143,135	3,114,393	1,062,430	2,948,735	16,399	443,628	50,545
1973	45,540,943	17,018,962	13,233,603	3,180,680	1,030,506	2,513,229	17,874	453,334	53,735
1974	43,995,014	16,390,080	12,904,974	3,097,073	588,291	2,353,822	18,024	351,103	51,663
1975	43,477,908	14,927,694	13,509,510	3,209,825	574,101	1,950,095	19,636	298,926	31,493
1976	45,605,101	15,759,346	14,289,144	3,337,914	832,433(R)	2,063,615(R)	21,833(R)	384,407	45,731
1977	46,398,759	15,659,679	14,774,406	n.a.	998,931	4,773,416(P)	24,076	448,669	61,578

FOOTNOTES

* Data prior to 1976 are based on different sample design and are not strictly comparable with later retail sales figures.

† Years 1948-70 compiled by N.J. Auto List. Years 1972-74 are from the N.J. Division of Motor Vehicles.

(P) —Preliminary estimates. (R) —Revised. n.a.—not available.

SOURCES: Electric Power Sales: Edison Electric Institute. Gasoline Consumption: Federal Highway Administration. New Dwelling Units Authorized: N.J. Department of Labor and Industry in Cooperation with U.S. Department of Commerce. Construction Contracts Awarded: F.W. Dodge Corporation. Retail Sales: U.S. Dept. of Commerce. Registration of New Vehicles: New Jersey Auto Lists, Inc.; N.J. Division of Motor Vehicles.

Prepared by N.J. Department of Labor and Industry, Division of Planning and Research.

TABLE 9
BUSINESS ACTIVITY, NEW JERSEY, 1948-1977

Year	Business Telephones Net Gains	Business Failures (number)	Liabilities of Business Failures ($000)	New Incorporations (number)	Apparent Consumption of Distilled Spirits (000 gal.)	New Jersey Turnpike	
						Toll Revenue ($000)	Number of Vehicles (000)
1948	19,106	219	15,286	5,510	6,852	n.a.	n.a.
1949	10,014	366	16,246	5,411	6,688	n.a.	n.a.
1950	20,134	346	10,926	6,009	8,243	n.a.	n.a.
1951	29,806	307	11,961	5,581	8,216	n.a.	n.a.
1952	29,044	319	18,627	6,146	7,824	16,241	17,948
1953	26,613	360	25,856	6,651	8,443	19,193	22,005
1954	24,664	385	20,086	7,276	8,536	20,756	24,555
1955	31,659	456	29,753	8,386	9,045	21,123	25,888
1956	37,452	582	33,919	8,839	10,253	24,124	31,588
1957	29,856	565	39,604	8,097	9,331	29,025	39,270
1958	21,892	778	43,475	8,757	9,961	30,162	41,615
1959	35,051	639	27,619	10,436	10,702	33,321	46,199
1960	38,543	714	49,071	10,172	11,391	35,588	49,083
1961	28,825	717	53,282	9,650	11,743	37,197	51,738
1962	39,383	591	58,468	9,984	12,378	39,246	54,901
1963	29,716	509	256,075	9,716	12,810	40,781	56,677
1964	36,771	442	49,261	10,023	13,483	44,153	60,708
1965	47,251	512	96,334	10,439	14,383	46,128	64,958
1966	54,650	442	61,191	9,656	14,687	48,617	69,850
1967	48,620	414	64,215	10,220	15,064	51,239	73,529
1968	53,293	423	42,692	12,038	15,971	55,350	78,205
1969	73,211	343	53,141	13,168	16,572	57,646	80,618
1970	58,787	463	142,196	13,958	16,289	63,946	89,655
1971	45,401	428	102,738	15,563	16,440	70,136	98,553
1972	66,989	453	173,428	16,462	17,060	75,948	107,933
1973	87,064	491	201,463	16,312	16,690	79,000	110,422
1974	55,327	643	110,411	15,410	16,527	75,241	106,628
1975	31,164	768	243,209	16,022	16,155	84,402	105,633
1976	53,040	660	174,457	18,270	15,902	91,095	109,234
1977	76,351	535	194,995	19,366	n.a.	95,112	115,664

FOOTNOTES

n.a.—not available.

SOURCES: Business Telephone Net Gains: N.J. Bell Telephone Company. Number and Liabilities of Business Failures and New Incorporations: Dun and Bradstreet, Inc. Apparent Consumption of Distilled Spirits: Distilled Spirits Institute. New Jersey Turnpike-Toll Revenue and Number of Vehicles: New Jersey Turnpike Authority.

Prepared by N.J. Department of Labor and Industry, Division of Planning and Research.

TABLE 10

AGRICULTURE, NEW JERSEY, 1950-1977

Year	Number of Workers on Farms (thousands)	Cash Receipts from Farm Marketings (thousands of dollars) Total	From Livestock and Products	From Crops
1950	66	292,430	188,694	103,736
1951	65	348,831	229,976	118,855
1952	61	342,447	215,156	127,291
1953	58	346,187	223,750	122,437
1954	59	314,259	194,605	119,654
1955	58	307,674	200,178	107,496
1956	53	330,372	202,117	128,255
1957	51	314,627	193,991	120,636
1958	51	304,569	191,946	112,623
1959	45	288,814	170,273	118,541
1960	44	296,510	166,126	130,384
1961	42	285,007	154,547	130,460
1962	41	276,598	143,854	132,744
1963	39	267,965	134,962	133,003
1964	37	259,477	124,079	135,398
1965	33	268,493	118,031	150,462
1966	27	269,839	120,262	149,577
1967	23	250,927	102,337	148,590
1968	23	252,599	100,797	151,802
1969	21	248,982	103,694	145,288
1970	20	246,631	98,962	147,669
1971	19	244,045	90,679	153,366
1972	20	240,784	90,910	149,874
1973	19	302,035	111,204	190,831
1974	20	339,876	113,269	226,607 (R)
1975	21	320,031(R)	102,473	217,558(R)
1976	22	334,320(R)	109,603(R)	224,717 (R)
1977 (P)	23	343,800	104,100	239,700

FOOTNOTE

(P) —Preliminary estimates. (R) —Revised.

SOURCES: U.S. Department of Agriculture; N.J. Department of Agriculture.

Prepared by N.J. Department of Agriculture.

TABLE 11

COUNTY POPULATION ESTIMATES*

RESIDENT POPULATION

	CENSUS	ESTIMATES	
	April 1, 1970	July 1, 1975 (R)	July 1, 1976 (P)
Atlantic	175,043	187,900	189,000
Bergen	897,148	879,100	873,700
Burlington	323,132	347,600	354,800
Camden	456,291	475,600	474,000
Cape May	59,554	72,300	74,300
Cumberland	121,374	132,000	133,500
Essex	932,526	881,600	872,400
Gloucester	172,681	190,900	192,500
Hudson	607,839	577,600	572,700
Hunterdon	69,718	78,500	79,600
Mercer	304,116	318,000	317,900
Middlesex	583,813	594,000	592,600
Monmouth	461,849	491,400	492,200
Morris	383,454	395,000	394,700
Ocean	208,470	293,800	305,900
Passaic	460,782	452,200	450,200
Salem	60,346	62,400	62,500
Somerset	198,372	203,700	205,600
Sussex	77,528	99,000	102,300
Union	543,116	520,500	517,100
Warren	73,960	80,000	81,000
Total	7,171,112	7,333,000	7,339,000

(R) Revised (P) Provisional

NOTE: State estimates are shown to nearest thousand. County estimates to nearest hundred.

* Estimates for the years 1971-1974 are currently being revised.

SOURCE: N. J. Department of Labor and Industry, Division of Planning and Research.