

Business in the Region

Structure and Performance of the Region's Producer Economy in 1972-75

INTRODUCTION

Gross National Product has become a leading and well understood indicator of national economic activity since its inception in the 1940's. In 1976-78 Regional Plan Association undertook a major effort to calculate the Gross Regional Product for the 31-county New York Urban Region and four of its subregions. This pioneering work in regional accounting was made possible by a grant from The Andrew W. Mellon Foundation.

The project results, including 70 statistical tables and numerous charts are being published in three issues of Regional Plan Bulletin under the general title *The Region's Money Flows*: I. *Government Accounts* (July, 1977); II. *Business Accounts* (April, 1979); III. *Household Accounts* (forthcoming). Combined, they will also appear in book form. There will be an additional publication pertaining to the Region's nonprofit organizations.

This issue of *Regional Plan News* represents a digest of the findings of the second volume of *The Region's Money Flows on Business Accounts*. That volume portrays the Gross Product Originating in the Region's economy by industry, as well as the Income Gross Regional Product, which shows payments to labor, capital and other factors of production.

The third volume, now in preparation, will show Demand Gross Regional Product, emphasizing consumption by households and patterns of investment. It will also summarize the Region's balance of payments.

The information presented in this series is new in many respects. Unlike all earlier economic studies of the Region, this study for the first time measures the output of the Region's economy in dollar terms. It provides previously unknown measures of profit, depreciation and taxes by industry. It offers some crude measures of productivity, and it estimates total private investment in the Region.

The Gross Regional Product, as presented in this study, is broken down by three major components of the private sector: large national corporations, small business, and nonprofit organizations. This breakdown sheds new light on the

strengths and weaknesses of the Region's economy. The study also offers new insights on the issue of corporate headquarters relocation.

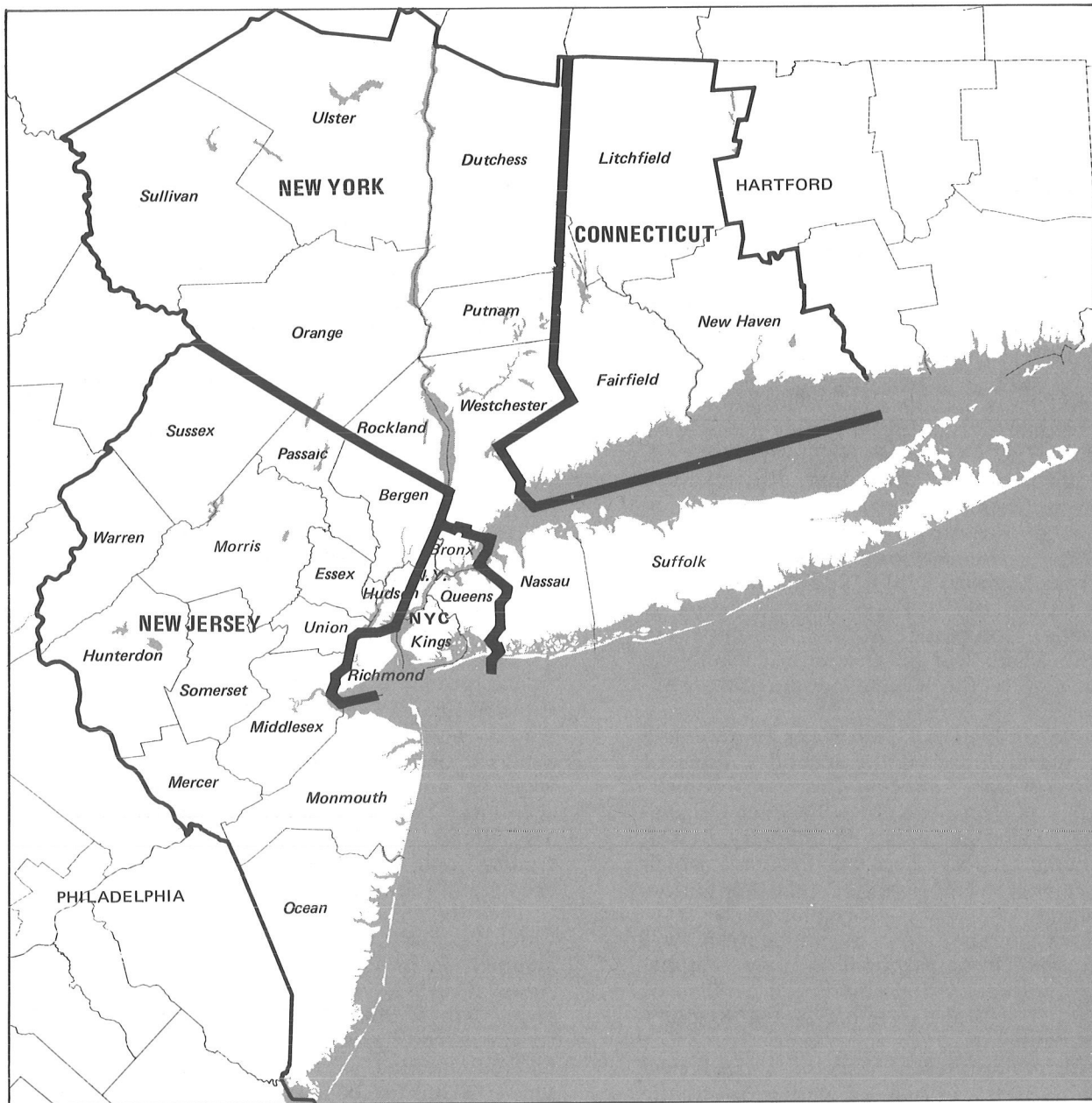
The accounting procedures used are those employed in the calculation of the Gross National Product in order to assure comparability. Thus, the caveats customarily used in interpreting the Gross National Product are applicable to this work as well. It is not a complete measure of regional production or well-being; its productivity indicators are rough and not so meaningful for the public sector. Furthermore, it does not teach us how to attain well-being at a minimum cost in resources. Still, income and product accounting has proven its worth at the national scale, and an extension of its process to the regional level can help to improve its decision-making.

A basic limitation of the study is that it portrays only two points in time: 1972 and 1975. The latter year was atypical because of the national recession. Obviously, instead of two snapshots in time, a film strip running for two decades would allow more dependable, comparative analysis. Regional Plan Association is seeking ways to provide for a periodic updating of the accounts. Yet, even short of that, the accounts are already finding application in economic studies and development efforts by several agencies in the Region.

The study is the work of Regina B. Armstrong, Chief Economist, in collaboration with Alberto Heimler, Ruth Plawner, and other Regional Plan Association staff. It was edited by Boris Pushkarev and Peter J. Barse. Regional Plan is grateful to those who provided conceptual consultation and commented on various drafts of the manuscript. A full list of acknowledgments is provided in the basic text of the study, *RPA Bulletin No. 128*.

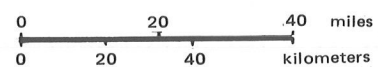
The full text and tables of the *Business Accounts* are available in **Regional Plan Bulletin 128** and of the *Government Accounts* in **Regional Plan Bulletin 127**. These volumes, II and I respectively of *The Region's Money Flows* series, are each priced at \$7.00 to Members and \$10.00 to Non-Members of the Association.

For membership information, see page 19.



The 31-County New York Urban Region and its Four Subregions

1975 Population: 19.6 Million
Land Area: 12,788 Square Miles



SUMMARY

I. THE PRODUCERS' ECONOMY IN THE REGION AS A WHOLE

1. A productive and profitable economy: government and labor share in the wealth, and so does the rest of the nation.

The output of the Region's economy is higher than the nation's per capita or per employee. With 9.2 percent of the nation's population and 9.4 percent of the employment, the New York Urban Region produced 11.3 percent of the Gross National Product in 1975. Gross Regional Product totaled \$172.3 billion.

In the Region's private sector, output per worker in 1975 was 23 percent, or \$4,242 above the national level of \$18,158. Three beneficiaries shared unequally in this extra margin of output. Somewhat less than one fifth of it went to business in higher after-tax profits. Somewhat less than two fifths was retained by workers in higher wages and benefits. The largest portion, over two fifths, was paid to government at all levels in higher taxes.

Thus, business profits in the Region were higher than in the nation; but so was the cost of

labor, and so were the taxes. Most of the extra payment to labor compensated it for higher skills. As for the extra payment to government, about half of it was diverted for public purposes elsewhere in the nation. Altogether, over 40 percent of the extra dividend from the Region's higher productivity was probably spent outside the Region.

The notion of the Region's high productivity compared to the nation runs counter to popular ideas about the Region's supposedly poorer work habits or labor discipline. Such qualitative considerations, of course, cannot be captured by regional accounts. What the accounts do show, however, is that in spite of any disadvantages of this nature, the output of the Region's enterprises -- that is, the market value of goods and services produced for final consumption -- is significantly above the national level, whether measured per employee or per dollar of labor payment. The accounts also show who receives the benefit of this extra income. Because of the conservative procedures used in allocating the output of firms to administrative offices, the Region's productivity is, if anything, understated.

Comparative Measures of Gross National Product (GNP) and Gross Regional Product (GRP) in 1972 and 1975

IN THE NATION:	GNP in Billions		GNP Per Capita		GNP Per Employee	
	Current \$	1972 \$	Current \$	1972 \$	Current \$	1972 \$
1972	\$1,169	\$1,169	\$5,616	\$5,616	\$13,701	\$13,701
1975	1,523	1,201	7,149	5,639	17,275	13,625
PERCENT CHANGE	+30.3	+2.7	+27.3	+0.0	+26.1	-0.6
IN THE REGION:	GRP in Billions		GRP Per Capita		GRP Per Employee	
	Current \$	1972 \$	Current \$	1972 \$	Current \$	1972 \$
1972	\$144.1	\$144.1	\$7,233	\$7,233	\$17,222	\$17,222
1975	172.3	136.9	8,797	6,988	20,851	16,564
PERCENT CHANGE	+19.6	-5.0	+21.6	-3.4	+21.1	-3.8

Note: Excludes statistical discrepancy in GNP.

Source: *Survey of Current Business* and Regional Plan Association.

2. The source of wealth: white collar specialization.

The Region specializes in activities of a distinctively "post-industrial" nature. In 1975, 59 percent of the Region's jobs were white collar. Only 28 percent were blue collar, and 13 percent were in service occupations. With their higher productivity, the white collar jobs were responsible for 67 percent of the Gross Regional Product. Blue collar workers produced 25 percent, and service workers 8 percent. The fact that a white collar economy can exceed the national performance in terms of output has a bearing on our conception of what constitutes a productive economic base.

The Region's most important function in the nation is that of a capital market. Multinational investment, banking and credit, securities and trusts, and insurance are activities in which the Region is most specialized. More than a quarter of the nation's output from them originates in the Region, and the activities, in turn, are responsible for 10 percent of the Gross Regional Product. The Region also houses one fifth of the national headquarters of the 3,500 major corporations. These headquarters exercise control over 40 percent of the nation's corporate profits.

Related white collar oriented activities in which the Region produces an above-average share of national output are business services,

wholesale trade, communication, nonprofit services, and transportation; these account for nearly 30 percent of the Gross Regional Product.

The Region also continues to hold a somewhat above-average share of national activity in non-durable manufacturing, particularly in apparel, printing and publishing, and chemicals. Nondurable manufacturing accounts for nearly 13 percent of Gross Regional Product. Instruments and miscellaneous goods (e.g., jewelry) are the Region's only specializations in the durable goods category, which is otherwise underrepresented in the Region.

With some exceptions, the industries in which the Region specializes also tend to be the Region's

growth industries. Communication, banking and credit, insurance, nonprofit services, but also utilities were among the industries which increased their output in the Region in the face of the 1972-75 downturn.

Conversely, activities in which the Region is not specialized -- notably durable manufacturing, real estate, retail trade and construction -- are among those which tended to register the greatest declines.

Foreign investment in the Region is more important than in the nation. Firms with predominantly foreign stock ownership accounted for about 3 percent of Gross Regional Product in 1975.

Rank Order of Industry Output in the Region, 1975

	As a Share of GNP in 1975	As a Share of Growth in GNP 1972 to 1975	As a Share of GRP in 1975
Rest of World	43.3%	43.3%	2.6%
Apparel	30.7	11.2	2.0
Banks & Credit	28.0	21.1	3.3
Securities & Trusts	26.6	-4.1	1.1
Printing	24.0	12.9	2.5
Misc. Manufacturing	22.5	5.6	0.8
Insurance	21.8	19.5	2.9
Chemicals	21.3	24.8	3.5
Business Services	17.3	10.5	5.6
Wholesale Trade	15.6	11.6	10.2
Instruments	14.7	3.2	0.9
Communication	14.2	12.1	3.3
Nondurable Manufacturing	13.8	10.5	12.8
Leather	13.3	-6.3	0.2
Nonprofit Type Services	13.3	11.3	6.5
Transportation	12.0	9.8	4.0
PRIVATE GROSS PRODUCT	11.7	8.1	90.0
Personal Services	11.6	6.2	3.0
Rubber	10.9	7.4	0.6
Utilities	10.7	11.2	2.4
Real Estate	10.6	5.4	10.1
Electrical Machinery	10.5	10.7	1.8
Paper	10.2	12.1	0.8
Textiles	9.8	-4.2	0.6
Retail Trade	9.8	6.6	8.5
Furniture	9.4	73.6	0.3
Nonelectrical Machinery	9.2	9.4	2.2
Fabricated Metals	9.1	2.9	1.4
Construction	8.7	-7.1	3.4
Food	8.0	6.7	1.9
Durable Manufacturing	7.9	6.5	9.6
Stone	6.8	9.5	0.5
Petroleum Refining	5.9	4.7	0.6
Transportation Equipment	4.4	92.6	1.0
Primary Metals	4.1	1.7	0.7
Tobacco	2.4	4.5	0.1
Lumber	2.2	-0.4	-0.1
Agr., For., & Fish.	1.1	0.4	0.4
Mining	1.1	0.7	0.2

Source: *Survey of Current Business* and Regional Plan Association

3. Specialized industries: major beneficiaries of a regional location.

The concentration of certain activities in the Region occurs because they derive advantages from a regional location -- advantages that tend to be reflected in productivity and profit.

While labor payments per employee in the Region are higher than in the nation, labor payments as a proportion of total output tend to be lower. The Region's economy is less labor-intensive and more capital-intensive than the nation's. Here, "capital" should be broadly interpreted to include financial as well as human capital, in the form of a skilled labor force.

To adjust for the higher labor payments per employee, productivity can be expressed as output per dollar of labor payment. By this measure, the Region exceeded the nation by 8 percent in 1975, producing \$174 worth of output per \$100 of labor in the private sector, compared to \$161 in the nation.

Industries in which the Region has the greatest advantage in output per dollar of labor payment are largely those in which the Region is highly specialized -- banks and credit, insurance, wholesale trade -- but also construction and utilities.

Most other industries tend to show at least some advantage, though in many important areas (communication, business services, manufacturing) it is very small.

A similar picture emerges with respect to profits. As a percent of gross receipts, the Region's businesses earned a 5 percent return in 1975, compared to 3.5 percent nationwide. Because labor in the Region comprises a smaller share of the factors of production, the difference per \$100 of labor payments was even greater, or \$24 compared to \$15 nationwide.

Compared to the nation, profit per unit of labor payments in the Region is highest in insurance, wholesale trade, communication, banking and credit, but also in utilities and construction.

Because the Region's businesses allocate less of their income to depreciation allowances, and more to undistributed profits, some of the profit is, in effect, derived by drawing down the capital stock. Still, even with depreciation allowances raised to the national level, the Region would retain roughly a 39 percent advantage in profit per dollar of labor payment. This advantage is strongly -- though not exclusively -- linked to activities in which the Region specializes.

Indices of Productivity and Profitability by Industry in the Private Sector of the Region compared to the Nation, 1975

Output per \$100 of labor, Region as percent of nation		Profit per \$100 of labor, Region as percent of nation	
1. Banks & Credit	104	1. Insurance	Over 200
2. Insurance	156	2. Construction	Over 200
3. Wholesale trade	122	3. Utilities	Over 200
4. Construction	117	4. Wholesale trade	189
5. Utilities	111	5. Communication	182
PRIVATE GROSS PRODUCT	108	PRIVATE GROSS PRODUCT	158
6. Nonprofit services	104	6. Banks & Credit	141
7. Nondurable manufacturing	104	7. Business services	108
8. Personal services	103	8. Nondurable manufacturing	106
9. Business services	103	9. Personal services	104
10. Retail trade	101	10. Durable manufacturing	99
11. Communication	101	11. Retail trade	98
12. Durable manufacturing	101	12. Nonprofit services	loss
13. Transportation	94	13. Transportation	loss
14. Securities & Trusts	75	14. Securities & Trusts	loss
15. Real estate	55	15. Real estate	loss

Note: Agriculture, Forestry & Fisheries and Mining, representing 0.6 percent of the Gross Regional Product, are omitted; Rest of World is omitted because of non-comparable data.

4. Government:

more a recipient than a contributor.

Of all the government revenue from production in the nation, nearly 14 percent is derived from the Region's economy, a share that is disproportionately high compared to the Region's share of Gross National Product. Because government appropriates the largest part of the extra "dividend" from the Region's greater productivity, the Region bears a higher tax burden.

Indirect business taxes in the Region in 1975 amounted to \$23 per \$100 of labor, compared to \$18 nationwide. Income taxes as a percent of profit-type income from domestic operations in 1975 were 53.8 percent for businesses in the Region, compared to 49.5 percent nationwide. About four fifths of the indirect business taxes, (sales, property, etc.) were collected at the state and local levels. Conversely, about four fifths of the profit taxes were collected by the federal government.

The incidence of indirect business taxes varies greatly by industry. Among the most heavily taxed are real estate, utilities, insurance and wholesale trade. While the former two are bound to a regional location, the latter two are relatively footloose. Manufacturing also bears a higher burden of indirect business taxes than nationwide, and the difference is especially pronounced in industries in which the Region does not specialize.

Overall, government as a receiver takes more out of the regional than out of the national economy: 18.6 compared to 15.3 percent. Yet, its role as a producer in the Region is smaller. All levels of government contributed 10 percent of the Gross Product Originating in the Region, compared to 12.9 percent in the nation. Comparatively high subsidies in the Region are part of the reason for the lower level of government "output" as calculated by the system of regional accounts.

5. Threatening the wealth: disinvestment

The Region's high productivity reflects past investments. The present rate of capital investment in the Region is dramatically below national levels. Gross private investment in the Region -- at \$15.3 billion in 1972 and \$12.4 billion in 1975 -- represented 11 and 7 percent, respectively, of the Gross Regional Product. For the country as a whole, the respective shares of the Gross National Product were 15 and 13 percent.

The major portion of investment outlays goes toward capital replacement, which tends to be financed out of depreciation. Depreciation allowances in the Region were below the national level in 1972 and fell even lower in 1975, suggesting that they reflected the consumption of aging capital assets at their original cost, not at their present replacement value.

Net investment -- the excess of gross investment over depreciation -- in the Region lagged

about one third below national levels in 1972 and shrank drastically by 1975. That year, it barely exceeded depreciation.

Indications are that large corporations made a net investment of over \$2.0 billion in the Region in 1975. Because total net investment was barely \$0.5 billion, the clear implication is that very substantial **disinvestment** took place in the rest of the private economy, mostly in the small business and residential sectors.

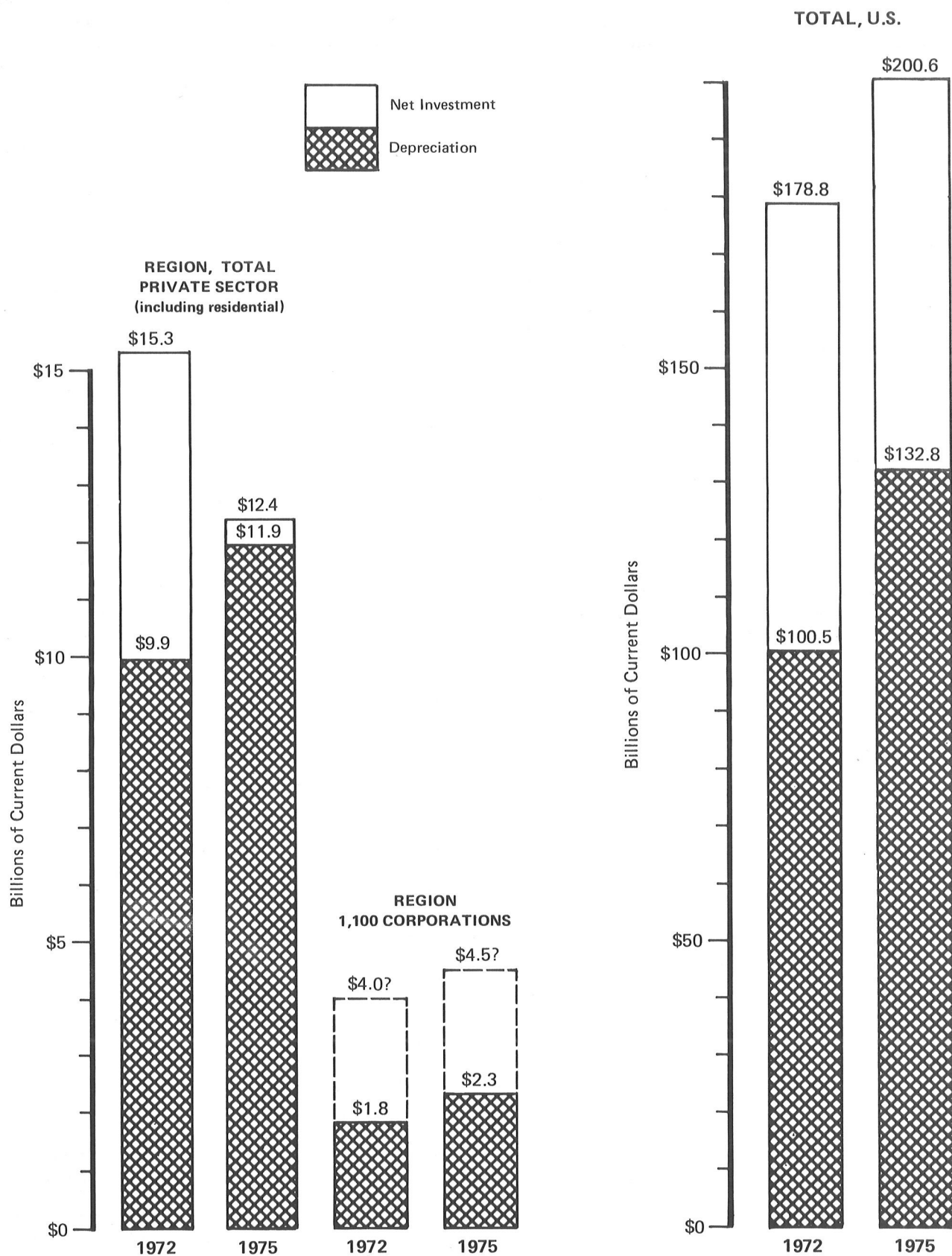
This is not to say that the necessary capital was lacking. Among the various sources of investment capital (including personal savings, which will be dealt with in a subsequent report), business savings play an important role. They consist of depreciation allowances and undistributed profits, adjusted for changes in inventory valuation. With depreciation allowances in the Region lower than in the nation, undistributed profits were much higher. As a result, in 1972 as well as in 1975, total business savings in the Region remained about 5 percent above national rates. This margin is probably a reasonable reflection of the Region's productivity advantage over the nation, if differences in industrial composition and labor cost are considered. However, a significant part of these business savings is invested outside the Region. In 1972, business savings in the Region exceeded gross business investment by \$0.6 billion, and in 1975, by \$5.6 billion. In sum, not only were the Region's business savings used to finance capital investment elsewhere, but the Region's capital stock was drawn down to some extent for the same purpose.

The emerging picture of the Region as an aging economy, wearing down its stock of physical capital but investing a large part of its financial capital in the rest of the world, is a troublesome one. Not only is growth investment absent in important industries, but producers appear to be disinvesting in the sense that the rate of replacement of outmoded plant and equipment is below depreciation at a time when both environmental standards and new technology demand expanded investment.

6. The decline of 1972-1975: structural as well as cyclical.

The national economic downturn between 1972 and 1975 was the sharpest since the Great Depression, and its impact on the Region was particularly strong. The Region's output as a share of Gross National Product slipped from 12.3 to 11.3 percent. Only 25 percent of this shortfall was due to the Region's loss of employment; 40 percent of it was due to its inability to generate new jobs at the national rate, and 35 percent, to a greater decline in output per worker. Output per employee in constant dollars dropped nearly 4 percent in the Region, compared to less than 1 percent in the nation.

Investment Compared to Depreciation in the Region and in the Nation, 1972 and 1975



Source: Survey of Current Business and Regional Plan Association

Changes in output by industry tended to reinforce the white collar activities in which the Region specializes, while weakening the goods-handling and population-serving activities. Geographically, New York City declined more than the rest of the Region, and the Region declined more than the rest of the nation. As a result, the economic structure of the Region was significantly altered.

Government's share of the Income Gross Regional Product rose from an already high 18.3 percent to 18.6 percent. Government employment grew by 100,000, even as private sector employment dropped by 200,000.

However, not all impacts of the 1975 recession on the Region were negative. The Region's margin of profitability over the nation remained unchanged. Labor costs declined in relative terms, from being 19 percent above the national level in 1972 to 14 percent above in 1975. Thus, if calculated per \$100 of labor cost, regional productivity actually increased from a level 7 percent higher than national to 8 percent higher. The major convergence in private sector labor costs occurred in industries in which the Region does not specialize. While these accounted for all of the private sector employment loss, they did become much more competitive by 1975.

Generally, beginning with 1974, inflation in the Region has been less severe than in the rest of the nation, correcting some of the distortions in the cost of doing business here and improving the Region's competitive posture.

II. LARGE CORPORATIONS VERSUS SMALL BUSINESS

The familiar picture of the Region's decline between 1972 and 1975 changes dramatically if we look at the regional economy in terms of its major organizational components: large corporations, small business, the nonprofit sector, and government.

1. Large corporations: a source of strength

The 1,135 major national corporations represented in the Region by head offices or production facilities play a lesser role here than they do in the rest of the nation. Their output in the Region represents less than 20 percent of the Gross Regional Product. Nevertheless, they are the strongest element in the Region's economy, with a productivity 43 percent above the regional average.

The large corporations' output in the Region in constant dollars increased 3.1 percent between 1972 and 1975, compared to a 5 percent region-wide decline. Their output per worker increased 5.2 percent in the face of a 3.8 percent region-wide decline. Their output per dollar of labor

payment increased 7.3 percent compared to 0.8 percent regionwide. Their after-tax profits per worker increased 16.1 percent compared to a 9 percent regionwide decline, and their business savings showed a similar advantage. As indicated earlier, the large corporations were the only ones to engage in net investment for growth in the Region in 1975. They kept gross investment at least on par with business savings.

2. Small business: the source of the decline.

In contrast to the national corporations, which employ an average of 975 workers per firm in the Region, firm size in the rest of the for-profit private sector averages only 13 employees. While small business still accounted for 65 percent of the Gross Regional Product in 1975, the decline of the Region's economy over the preceding three years was basically a decline of small business. Small business lost 310,000 jobs or nearly 6 percent of its employment, while large corporations reduced their employment by only 22,000, or 2 percent.

The output of small business in the Region in constant dollars declined 9.1 percent between 1972 and 1975, compared to a 5 percent region-wide decline. Their output per worker decreased 3.4 percent, similarly to the regional average (which is weighted down by nominal declines in output per worker in the nonprofit and government sectors). After-tax profits of small business declined 14.1 percent per employee compared to a 9 percent regionwide decline, and its business savings declined similarly. Only the indicator of output per dollar of labor payments changed in the positive direction, increasing by 1.6 percent in the small business sector, compared to 7.3 percent in the large corporations and 0.8 percent for the regional economy as a whole.

As a result of the contraction in small business, the role of the large corporations in the Region's economy became larger. Between 1972 and 1975, only one major industry, communication, experienced a growth in output among the smaller firms. About two thirds of the employment losses among small business were in the manufacturing sector, which represents one of the few external market oriented small business activities.

3. Nonprofit organizations: a cushion in the recession.

The fastest growth in 1972-75 was recorded by the nonprofit sector, one that blurs traditional distinctions between public and private enterprise. In the Region, this sector plays a more prominent role than in the nation; it was responsible for 6.5 percent of the Gross Regional Product in 1975. Nearly two thirds of this sector, as defined in the accounts, consists of medical facilities and services many of which are in fact for-profit. However, it does include most of the bona-

fide nonprofit organizations, such as voluntary hospitals, membership organizations, private universities and schools.

These activities registered a spectacular 132,000 or 18 percent increase in employment between 1972 and 1975. If one adds the 100,000 jobs created in government over the period, government and the nonprofit sector combined absorbed 75 percent of the jobs lost by small business, and ended up employing 26.5 percent of the

Region's jobholders in 1975.

Total output in the nonprofit sector alone increased more than 6 percent in constant dollars over the 1972-75 period, though output per worker declined. However, just as in the case of government, the regional accounts system is not well equipped to deal with this sector precisely because of its nonprofit nature. Much of its output is not sold at market prices, and tends to be equated with the cost of producing it.

Comparative Performance of Major Corporations, Small Business, Nonprofit Organizations and Government in the Region in 1972-75

	Total Region	National Corporations	Small Business	Nonprofit Sector	Government
EMPLOYMENT (in 000):					
Firm Size (employees)	20	975	13	30	670
Total, 1972	8,365.4	1,123.9	5,279.4	724.2	1,237.9
1972-75 change	-100.2	-22.4	-309.8	+131.6	+100.4
% change	-1.2%	-2.0%	-5.9%	+18.2%	+8.1%
GROSS PRODUCT (in 1972 \$000,000):					
Total, 1972	\$144,072.6	\$25,234.4	\$97,040.9	\$8,200.3	\$13,597.0
1972-75 change (in constant dollars)	-\$7,169.5	+\$771.2	-\$8,826.6	+\$539.0	+\$346.9
% change	-5.0%	+3.1%	-9.1%	+6.6%	+2.6%
OUTPUT PER WORKER:					
In 1972	\$17,222	\$22,453	\$18,381	\$11,323	\$10,984
In 1975 (constant 1972 dollars)	\$16,564	\$23,611	\$17,751	\$10,212	\$10,419
% change	-3.8%	+5.2%	-3.4%	-9.8%	-5.1%
% change per \$ labor	+0.8%	+7.3%	+1.6%	+1.0%	-3.2%
AFTER TAX PROFITS PER WORKER:					
In 1972	\$1,506	\$2,097	\$1,601	-\$106	---
In 1975 (constant 1972 dollars)	\$1,371	\$2,434	\$1,376	-\$20	---
% change	-9.0%	+16.1%	-14.1%	**	---
BUSINESS SAVINGS PER WORKER*					
In 1972	\$2,235	\$2,537	\$2,453	\$175	---
In 1975 (constant 1972 dollars)	\$2,073	\$2,887	\$2,206	\$255	---
% change	-7.2%	+13.8%	-10.1%	+45.7%	---

* Includes undistributed profits and depreciation allowances.

** Not meaningful.

4. Large corporations: control over national resources.

One third of the 3,477 publicly traded national corporations have a direct stake in the economy of the Region. One tenth have their chief executive offices in the Central Business District of Manhattan, another tenth, elsewhere in the Region, and the remainder, while headquartered outside the Region, have production facilities here. More impressive than the large corporations' participation in the regional economy is their control over national resources exercised from regional locations.

The 676 national corporations with head offices in the Region direct a nationwide network of establishments that employed nearly 9 million workers, or one in ten workers in the nation in 1975. Their nationwide output was \$231 billion, or 15 percent of the Gross National Product. They earned 41 percent of gross domestic corporate profits, paid 38 percent of all dividends, nearly half of all corporate profit taxes, and retained \$31 billion in business savings, which represented one fifth of all private producers' funds for investment in the nation. Their worldwide capital outlays were \$43 billion, and domestically they were responsible for about one quarter of all non-residential private investment.

Two thirds of this output and three quarters of the profits were controlled from a Manhattan location. The average national firm headquartered in Manhattan exceeded \$1 billion in net sales in 1975, whereas those headquartered elsewhere in the Region averaged around \$400 million. The national corporations headquartered outside the Region but with facilities here averaged around \$700 million in net sales.

The concentration of control over nationwide resources results in obvious benefits to the Region: it requires highly specialized and highly paid skills, supports elite business services, and attracts foreign corporations. The national corporations with headquarters in the Region tend to have more production facilities here as well, and contribute much more to the Region's economy than those headquartered elsewhere. However, the fact that the latter are underrepresented in the Region deprives its economy of stability and resilience compared to the rest of the nation.

5. Corporate moves: the weaker firms tended to move, with no effect on the Region's economy, but with significant local impacts.

In 1972-1975, 23 national corporations moved their headquarters out of the Region: 8 of them left the Region entirely. The economic impact of these publicized move-outs was negligible, amounting to a small fraction of one percent of the Region's output. Much more important was the shift of production to out-of-region locations by the corporations that stayed.

In the same period, another 33 national corporations moved their headquarters within the Region, mostly from Manhattan to outlying areas. The majority of these firms, particularly the movers from Manhattan, tended to be below average for their industry in terms of productivity, profitability, and rates of growth. By contrast, the firms which kept their headquarters in Manhattan increased their output and profits much faster than their peers both within the Region and nationally.

However, Manhattan did lose 15 percent of its control over national resources over the three-year period, and the concentration of headquarters in the Connecticut subregion increased particularly rapidly. The possibility of such sudden shifts underscores the point that financial capital is the most mobile factor of production, and that under unfavorable circumstances the Region's intricate web of corporate decision-making and financial markets could be unraveled.

It is impossible to say whether the firms that moved performed poorly because they moved, or whether they moved because they performed poorly. In any case, with the cost of operating a headquarters typically a small item in a corporation's budget, the public interest in an efficient pattern of headquarters location may legitimately be greater than the particular interest of a firm.

III. SUBREGIONAL ECONOMIES: LINKAGES AND CONTRASTS

1. Links between New York City and three subregions.

The major links which tie the Region into one economic entity are those between New York City and the surrounding portions of Connecticut, New Jersey and New York State. Over 600,000 suburban residents hold jobs in New York City, and 160,000 City residents hold suburban jobs. Because of the preponderance of the higher paid in-commuters, there is a large net outflow of labor payments from New York City.

Over \$11 billion of labor and proprietary income paid by New York City producers, or 23 percent of the total, was earned by out-of-city residents in 1975. Over \$7 billion of this amount went to Long Island and the northern New York State suburbs; \$3 billion went to the New Jersey subregion, and \$1 billion to Connecticut. These amounts were, respectively, 21 percent, 7 percent, and 8 percent of all Personal Income received by the residents of the subregions.

New York City sales of goods and services to the outlying subregions also exceed its purchases from them. The import of goods and services for personal consumption is particularly evident in the New York State suburbs.

Because of their orientation toward production facilities, the outlying subregions export corporate profits to the rest of the nation. This outflow

Comparative Performance of 56 Firms Which Moved Their Headquarters in 1972-75

	Number of Firms	Average 1975 Product per Firm (\$000,000)	Share of this in Region	Companywide Performance as a Percent of Regional Average for Firms in Given Category		
				Productivity (1975)	Profitability (1975)	Growth Rate (1972-75)
1. Movers from Manhattan to Rest of Region	23	\$766	5.3%	-15%	-46%	-50%
a) Durable Manufacturing & Mining	9	883	2.7	-1	-11	+60
b) Nondurable Manufacturing	8	400	11.7	-26	-66	-68
c) Trade, Services, Communication	6	1,080	5.5	-17	-30	-98
2. Movers from Manhattan to Rest of Nation	20	418	2.6	-16	-39	-27
a) Durable Manufacturing & Mining	8	760	1.9	+1	-5	+4
b) Nondurable Manufacturing	7	312	4.1	-16	-40	-39
c) Trade, Services, Communication	5	19	9.7	-13	-44	-11
3. Movers from Rest of Region to Manhattan	7	70	16.6	-7	-40	-39
a) Durable Manufacturing & Mining	7	70	16.6	-7	-40	-39
4. Movers from Rest of Region to Rest of Nation	3	281	4.8	+130	+144	Over +100
a) Durable Manufacturing & Mining	1	9	71.9	-41	Over-100	Over-100
b) Nondurable Manufacturing	2	417	4.1	+85	+52	Over +100
5. Moves from Rest of Region to Rest of Region	3	15	31.1	-18	-44	Over +100
b) Nondurable Manufacturing	2	15	28.1	-12	-54	Over +100
c) Trade, Services, Communication	1	15	37.0	-32	-8	+83
Total Movers	56	489	4.7	-14	-42	-33
a) Durable Manufacturing & Mining	25	581	2.9	-1	-10	+31
b) Nondurable Manufacturing	19	329	8.1	-16	-50	-22
c) Trade, Services, Communication	12	\$549	5.6%	-17%	-31%	-96%

is partly offset by a net inflow of corporate profits into New York City, which is more oriented toward headquarter and financial activities. Both money flows are roughly balanced by reverse streams of interest, dividends and business transfer payments which accrue to Personal Income. The City and suburban economies complement each other similarly in many other ways.

A traditional source of suburban job growth has been establishments that are functionally linked to New York City activities, or those that physically relocated from the City. However, the suburbs' gain of 200,000 jobs between 1972 and 1975 in the face of the City's loss of 300,000 did not result in any gain in suburban output. In 1975, a New York City private employee earning an average of \$13,572 produced \$24,146 worth of goods and services; his suburban counterpart, earning \$12,366 produced \$21,056 worth. The drift of business activity to the suburbs therefore had to result in a net decline of regionwide output per worker. In fact, between 1972 and 1975, constant dollar output per worker in the private sector remained stable in New York City, while it declined by 6.1 percent in the New York State subregion, by 5.3 percent in the Connecticut subregion, and by 4.4 percent in the New Jersey subregion. Profitability indicators in the suburbs declined likewise. Thus, the suburban job growth merely reduced the suburban unemployment rate, while total output declined. The City's economy, despite its greater drop in total output, was able to maintain its productivity and to increase its profits per dollar of labor cost.

2. Differences by subregion.

In 1975, New York City remained by far the dominant subregion in terms of output, generating 46.6 percent of the Gross Regional Product (down from 48.4 percent in 1972). It was followed by the New Jersey subregion, with 28 percent of the Gross Regional Product, and then by the New York State subregion with 17.5 percent and the Connecticut one with 8.0 percent.

Among the subregions, New York City is most specialized in office-type activities, especially finance, international business, communication, services and utilities. Banking, securities and insurance firms in the City – mostly in Manhattan – originated 19 percent of nationwide financial sector output in 1975. By contrast, the City produced relatively low shares of nationwide output in the manufacture of durable goods, in retail trade and government.

In line with its industrial structure, the City displays a one third advantage in output per unit of labor payment compared to the suburbs in the financial sector; it also shows significant advantages in such industries as utilities (which include many holding companies) and construction. By contrast, the suburbs show a one fifth advantage

in output per dollar of labor payment over the City in durable manufacturing, and lesser advantages in nondurable manufacturing and wholesaling.

The suburban areas of New York State were the only subregion to show a slight growth in output between 1972 and 1975, but this was due to the expansion of government, rather than the private sector. The output of durable goods in the area exceeds that of New York City, and the area receives half of the Region's defense contracts. It also shows some specialization in finance and services. Labor is a relatively larger factor of production, jobs are lower paying, and higher income residents are most dependent on New York City employment. The subregion's producers charge more to depreciation than in other parts of the Region.

The New Jersey subregion has the largest concentration of manufacturing, but it is underspecialized in white collar activity. The area exhibits significant productivity advantages in goods handling with respect to the nation, but it was – at least in 1972-75 – disadvantaged by heavy tax burdens on producers. Its productivity indicators in finance and business services were relatively low.

The economic base of the Connecticut subregion is an amalgam of both manufacturing and "post-industrial" specialties, including durable goods, banking, and office activities. Productivity indicators are lowest among the subregions. This is somewhat offset by lower taxes and labor costs.

IV. SOME POLICY IMPLICATIONS

1. The dual economy and the investment issue.

The regional accounts uncover a seeming paradox: if the Region is so profitable and so productive, why then is so much disinvestment going on? Theoretically, one can answer that with high average product of labor, the extra margin of product to be derived from additional investment in the Region is probably low; it is likely to be higher in other parts of the world, where the existing product is low, and where an extra dollar of investment can make a greater difference. One can also hypothesize that there is a limit to which the Region's select profit-intensive activities can be expanded, in relation to the economy as a whole.

On the practical side, however, the accounts suggest that the investment of large corporations in the Region was only moderately below national rates. The nonprofit sector also continued to invest in the Region. Thus, disinvestment was strictly confined to the small business sector and to housing. Setting the housing issue aside, the remaining question is: why did small business fail to invest in the Region?

Productivity, profits and business savings of small business in the Region were lower than

those of large corporations, but not sufficiently lower to explain the difference between investment and disinvestment. Small business may suffer from lack of information; national corporations, with establishments in many regions, have internal information on their relative advantages, while small business is unable to make such comparisons. Small business also may react more to some highly visible costs, such as those of labor or taxes, to the stability or decline of local markets, to social risks such as vandalism and theft. A more basic question, however, is whether the concentration of capital in the Region in the hands of large corporations and institutional investors allows adequate access to capital for the small entrepreneur.

The channels through which capital is provided for development at the local level should be carefully assessed to see if there are impediments which can be removed. Serious consideration should be given to the design of a joint public/private vehicle to help mobilize capital for small business activity. The efficacy of a national "Urban Development Bank" or related proposals will also have to be considered in this light.

More broadly, a limitation of regional accounts is that they assess capital flows but not capital stocks. Thus, it is not possible to calculate any "return on investment." There may be many factors in the Region -- higher land and construction costs, higher environmental standards -- which tend to depress marginal returns to capital. Estimates of capital stock must be developed in addition to updating and continuing the flow accounts. For instance, the condition of the Region's basic infrastructure is a fundamental concern. Capital stock estimates would permit much more meaningful estimates of productivity in the public sector, in large corporations, and in small business. Without such data, it is difficult to design policies that would reduce the cleavage between an actively investing and expanding large business sector, and a shrinking, unstable and undercapitalized small business sector.

2. Economic development strategies.

The regional accounts do provide help in defining objectives and strategies of an economic development policy for the Region, raising a number of issues.

a) Should the Region focus on attracting large corporations (especially those headquartered elsewhere, which are greatly underrepresented in the Region), or should it focus on shoring up small business?

The former policy seems simpler, and promises greater economic stability; it runs with, rather than against the trends. Yet the Region can ill afford to write off small business, for the simple reason that it accounts for two thirds of its total output, and almost three quarters of its private sector output. At the national level, small business remains a major source of innovation and an

incubator of new technologies. At the regional level, growth in employment is closely linked to the rate at which new small firms are established. While the "death rate" of firms has been shown to be fairly even across the nation, it is the "birth rate" of new firms that makes the difference between a region's growth or decline.

Thus, the complex task of making the Region "safe for small business" must be pursued at least alongside any policies for attracting large employers.

b) Should the Region focus on increasing output (and, by implication, government revenues), or should it focus on providing more jobs?

The former goal requires encouragement of capital intensive industries and the substitution of capital for labor. The latter goal requires the encouragement of service industries which are labor-intensive and have relatively low productivity. To maximize output, one would want to encourage offices in New York City and goods-handling activities in the outlying subregions, in line with the comparative advantages that these areas possess. However, given the existing distribution of the housing stock, such a policy could lead to greater localized unemployment, and greater commuting distances. On the other hand, putting manufacturing where the unemployed blue collar workers are may result in declines in regionwide productivity and require considerable subsidies. These may be better spent on providing suburban housing opportunities for blue collar workers and improving city housing for white collar workers, funded by the proceeds of a more productive economy.

c) What should be the regional policy toward nonprofit institutions?

In the early seventies, the nonprofit sector provided a great many new employment opportunities and considerable capital investment. Its medical, educational and cultural facilities constitute some of the Region's major assets, which attract outside spending by patients, students, tourists and so on. The sector requires considerable low skilled employment, for which there is great demand. Yet, too much emphasis on it will lead to overall productivity declines and a reduced revenue base for public services. Besides, demographic trends are not favorable to many of the nonprofit activities (e.g. education). Thus, policies have to be highly selective and require difficult choices.

d) What for-profit activities do really benefit most from locating in the Region, and should economic development efforts be confined to them?

The accounts seem to suggest rather unambiguously that banking, finance, business services, communication, wholesale trade, and several categories of nondurable manufacturing prosper in the Region. Yet it is apparent that the observed productivity differences owe much to the presence of corporate headquarters and related

activities. It is reasonable to ask whether part of the difference is a reflection of the market power of the large corporations rather than of the quality of the human and physical capital in the Region, or of agglomeration economies in and around Manhattan. Adjusting for the Region's different economic mix does not entirely adjust for the differences in the size or market structure of the Region's industries. These qualifications must be recognized so that productivity not be ignored as a continuing policy issue in economic development. If most of the Region's observed advantage is due to the large corporate sector, but the business savings earned on that productivity largely flow elsewhere, then the economic prognosis for the Region may not be a happy one.

On the other hand, the adjustments in labor and other costs that occurred in the Region in the wake of the 1975 recession affected activities in which the Region does not specialize most strongly. Thus, comparative advantages -- possibly temporary ones, possibly longer lasting -- may be developing for manufacturing activities that used to be leaving the Region, and such activities must not be overlooked in economic development efforts. In particular, such efforts might single out the production of goods which the Region imports for consumption, but which could be locally produced.

e) Training the labor force for a white collar economy.

While the loss of blue collar jobs from the Region may well be retarded, the long term trend nevertheless seems to be toward an economy that is more information oriented than commodity oriented. For the Region to maintain the lead in this transition, its educational system, particularly that of its older cities, must be upgraded to provide a competent labor force. While the issue is long-standing, resistant to easy solutions, and prominent in the public mind, the fact that nearly 60 percent of all the jobs in the Region, and 67 percent of those in the Manhattan Central Business District are already in the white collar category brings it into even sharper relief.

Often overlooked is the fact that the structural transformation of the Region's economy is proceeding within the so-called "manufacturing" sector as well as between manufacturing and services. Thus, 22 percent of employment in the Region's manufacturing sector is actually head-office employment. There may also be a growing "gray-collar" component, such as technical services personnel to maintain sophisticated equipment. It seems certain that the jobs traditionally associated with manufacturing -- factory laborers and operatives -- will continue to diminish. The impli-

cations of this for the reduction of poverty and dependency in the Region's central cities require unceasing attention.

3. Taxation and government spending.

Conventional wisdom about the very high level of taxes in the Region and the relatively low level of government output is confirmed by the accounts. Since 1975, much political effort in the Region has been devoted toward retarding the growth in public sector spending and providing tax incentives for selected economic development.

Tax incentives are an immediate measure that can yield practical results, but it also introduces the danger of making a patchwork of tax systems at any level. A more sound and enduring development pattern can be facilitated by tax reform and a unified regional taxation system, along with efforts to increase the productivity of government expenditures. For example, to deal with the Region's inordinately high levels of indirect business taxes, efforts should continue to explore the substitution of a "benefits received" basis of business taxation (such as the Value Added Tax) for the "ability to pay" basis, which penalizes profit. It is similarly desirable to shift away from property taxes toward personal income taxes, to reform school finance and to reduce disparities in tax burdens among parts of the Region. The latter are still a major incentive for states and localities to pursue inefficient "beggar thy neighbor" and "spread city" development policies in the quest for "ratables."

Furthermore, it is essential to see to it that the pressure to "reduce government spending" does not undermine government's ability to fund public investment, to rehabilitate and improve the Region's public infrastructure, on which any future economic development depends. The past trend of increasing labor payments to public employees while reducing capital expenditures was in large part responsible for the Region's current predicament, especially in New York City. With rising constraints on spending at the federal level, the Region may be faced with the choice of funding more of its public capital expenditures from its own sources, or abandoning large parts of its physical infrastructure.

With respect to the federal government, the outflow of 4 percent of the Gross Regional Product for federal purposes outside the Region remains at issue. Prosperity, rather than decay of a region that represents more than one tenth of the national economy, that controls one fifth of the nation's private investment, and produces one seventh of all taxes paid in the nation would clearly seem to be in the federal interest.

Gross National Product and Gross Regional Product by Industry (GPO) in 1972 and 1975 (In Current \$000,000)

	Gross National Product		Gross Regional Product	
	1972	1975	1972	1975
Agr., For., & Fish.	\$ 38,734	\$ 54,004	\$ 542.0	\$ 607.3
Mining	12,137	23,603	181.8	266.3
Construction	56,623	67,566	6,685.1	5,908.4
Manufacturing	301,403	370,990	32,865.5	38,720.5
Durable	174,107	210,472	14,239.9	16,605.7
Nondurable	127,296	160,518	18,625.6	22,114.8
Transportation	46,770	56,993	5,827.0	6,829.5
Communication	30,147	40,152	4,467.8	5,682.7
Utilities	28,064	38,956	2,927.4	4,150.7
Wholesale Trade	77,276	112,569	13,461.2	17,558.6
Retail Trade	117,772	149,820	12,516.5	14,617.0
Finance, Insur., R.E.	170,233	215,517	27,017.2	30,152.4
Banks & Credit	17,338	20,272	5,058.3	5,677.8
Insurance	20,631	23,300	4,559.5	5,080.8
Real Estate	126,446	164,678	15,406.1	17,459.9
Securities & Trusts	5,818	7,267	1,993.3	1,933.9
Services	134,331	185,036	20,931.9	26,102.5
Business	40,166	55,921	8,023.1	9,680.4
Nonprofit	57,532	83,753	8,200.3	11,168.8
Personal	36,633	45,362	4,708.5	5,253.3
Government	148,901	197,211	13,597.0	17,178.9
Rest of World	7,049	10,543	3,052.2	4,565.1
Total	1,169,440	1,522,960	144,072.6	172,339.9
Private Gross Product	1,020,539	1,325,749	130,475.6	155,161.0

Note: Excludes statistical discrepancy in GNP.

Source: *Survey of Current Business* and Regional Plan Association

Gross Regional Product Originating in Subregions by Industry in 1975 (In Current \$000,000)

	1975			
	New York City	New York excl. N.Y.C.	New Jersey	Connecticut
Agr., For., & Fish.	\$ 48.6	\$ 263.0	\$ 219.7	\$ 76.0
Mining	136.4	43.0	70.7	16.2
Construction	2,152.2	1,228.0	1,957.1	571.1
Manufacturing	11,970.8	6,339.4	15,883.7	4,526.6
Durable	2,667.8	3,887.1	6,750.6	3,300.2
Nondurable	9,303.0	2,452.3	9,133.1	1,226.4
Transportation	3,984.3	509.1	2,050.6	285.5
Communication	3,363.8	864.3	1,099.4	355.2
Utilities	1,923.4	735.0	1,213.7	278.6
Wholesale Trade	9,215.7	2,745.6	4,743.5	853.8
Retail Trade	5,310.0	3,411.5	4,590.8	1,304.7
Finance, Insur, R.E.	16,649.8	5,133.0	6,230.4	2,139.2
Banks & Credit	4,127.4	571.7	735.0	243.7
Insurance	3,734.5	491.6	731.6	123.1
Real Estate	7,090.3	3,944.8	4,690.5	1,734.3
Securities & Trusts	1,697.6	124.9	73.3	38.1
Services	13,406.4	4,925.2	5,914.7	1,856.2
Business	5,307.6	1,721.5	2,199.1	452.2
Nonprofit	5,453.2	2,136.0	2,557.4	1,022.2
Personal	2,645.6	1,067.7	1,158.2	381.8
Government	7,574.9	3,879.0	4,764.8	960.2
Rest of World	4,565.1	--	--	--
Total	80,301.4	30,076.1	48,739.1	13,223.3
Private Gross Product	\$ 72,726.5	\$ 26,197.1	\$ 43,974.3	\$ 12,263.1

Source: Regional Plan Association

Gross National Product and Gross Regional Product by Distributive Shares of Income in 1972 and 1975 (In Current \$000,000)

	Gross National Product		Gross Regional Product	
	1972	1975	1972	1975
Payments by Producers to Individuals	\$ 866,830	\$1,128,520	\$ 101,812.4	\$ 122,210.4
Wage and Salaries	633,765	805,705	75,436.3	89,095.3
Business	496,176	630,278	62,858.7	73,138.8
Government	137,589	175,427	12,577.6	15,956.5
Other Labor Income	41,956	64,875	4,436.3	5,701.8
Interest and Dividends	81,348	125,110	12,885.4	17,777.3
Entrepreneurial Income	105,039	125,822	8,450.7	8,815.8
Rental Income	29,414	36,831	2,224.3	2,544.4
Farm Income	20,013	26,808	39.6	42.5
Other Proprietors' Income	55,612	62,183	6,186.8	6,228.9
Business Transfer Payments	4,722	7,008	603.7	820.2
Income Retained by Producers	123,955	161,736	15,928.1	18,122.6
Capital Consumption Allowances	100,528	132,802	9,928.8	11,942.1
Undistributed Profits	23,427	28,934	5,999.3	6,180.5
Tax and Nontax Payments by Producers to Government	178,655	232,704	26,332.1	32,006.9
Taxes on Profits	41,535	50,154	7,488.9	9,193.7
Property Taxes	42,977	52,286	6,419.9	8,072.1
Other Indirect Business Taxes	68,030	86,415	10,026.6	11,939.6
Employer Social Insurance	39,424	59,761	4,629.3	6,567.2
Interest Received Less Paid by Gov't.	-9,723	-13,648	-1,678.8	-2,480.6
Surplus of Gov't. Enterprises	-3,588	-2,264	-553.8	-1,285.1
Less Subsidies				
Distributive Shares of Gross Product	\$1,169,440	\$1,522,960	\$ 144,072.6	\$ 172,339.9

Note: Excludes statistical discrepancy in GNP.

Source: *Survey of Current Business* and Regional Plan Association.

Relationship of Gross Product Originating to Personal Income in Subregions in 1975 (In Current \$000,000)

	1975			
	New York City	New York excl. N.Y.C.	New Jersey	Connecticut
Gross Product Originating	\$80,301.4	\$30,076.1	\$48,739.1	\$13,223.3
Less: Capital Consumption Allowances	5,024.6	2,376.7	3,516.7	1,024.1
Equals: Net Product at Market Prices	75,276.8	27,699.4	45,222.4	12,199.2
Less: Indirect Business Taxes	9,180.9	3,003.0	6,466.7	1,361.1
Business Transfer Payments	384.4	138.5	232.5	64.8
Surplus of Government Enterprises	-303.5	-45.5	-6.8	-4.9
Plus: Subsidies	749.4	87.5	66.5	21.0
Equals: Net Product at Factor Prices	66,764.4	24,690.9	38,596.5	10,799.2
Plus: Net Receipts of Factor Income from Outside Subregion	-11,365.9	6,945.1	2,915.5	984.6
Net Earnings from Commutation	-11,352.0	6,998.7	3,011.7	998.7
Net Receipts of Corporate Profits	1,126.9	-1,659.3	-435.1	-519.6
Other	-1,140.8	1,605.7	338.9	505.5
Equals: Share of Regional Income	55,398.5	31,636.0	41,512.0	11,783.8
Less: Corporate Profits with Inventory Valuation Adjustment	12,465.6	2,392.7	4,470.4	1,070.8
Net Interest	4,474.4	2,141.1	2,727.1	928.8
Employer and Employee Contributions for Social Insurance	5,657.7	2,097.0	3,436.7	853.5
Plus: Transfer Payments to Individuals	8,759.6	3,734.2	5,144.1	1,448.0
Property Income	9,112.1	5,287.1	5,192.1	2,062.5
Personal Interest	6,796.1	3,785.5	3,954.6	1,307.4
Dividends	2,316.0	1,501.6	1,237.5	755.1
Equals: Personal Income	\$50,672.5	\$34,026.5	\$41,214.0	\$12,441.2

Source: Regional Plan Association and Bureau of Economic Analysis Regional Economics Information System



Regional Plan Association

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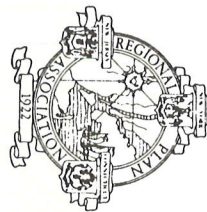
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