

New York City's Economy— A Perspective on its Problems

The economy of New York City is an amalgam of many diverse elements. Above and beyond being the center of the nation's largest metropolitan area, New York holds a leading position in finance, international trade, communications, fashion, entertainment, culture, and legal and advertising services—both in the nation and in the world. Yet the city's economy has been caught in a downward spiral. Its resident population has been slowly contracting. One out of every two manufacturing jobs has been lost since 1950. Since 1969, New York has lost one payroll job in every six—about 600,000 in all. This continuing shrinkage in employment has been caused in large measure by the exodus of both small and big businesses. More rapid or more flexible means of communication and transportation have made the once strategic location of New York, and of older cities in general, less important and have fostered the growth of employment and population elsewhere.

But, in addition to shared urban problems, other factors have fueled New York's economic decline. Among them are the large number and the relatively high rates of business and personal taxes and the high cost of living as compared with other major metropolitan areas.

It is the combined effect of problems specific to New York and those common to older cities in general that accounts for the steep economic decline New York has suffered. While the serious consequences of this decline are clear—the emigration of businesses, jobs, and people—the remedies are not clear at all. But during the past few months there have been encouraging signs. The city administration has taken steps to

start easing the tax burden on business. More generally, employment and retail sales data for the first months of this year indicate that the erosion of New York's economy is beginning to slow. While it is still too early to assert that the city's condition has permanently improved, the recent upgrading of the ratings assigned to New York's debt obligations provides some indication that the city has made measurable progress since its fiscal position was at its worst.

The decline in employment

A lack of satisfactory data generally makes it difficult to assess the amount of economic decline that has undermined the viability of older urban centers. There are virtually no continuous and detailed measures of the output of cities comparable to the flow of data on gross national product for the country as a whole. The best available statistics come from labor market information. Employment and unemployment data are the most comprehensive and hence the most useful yardsticks of the economic position of cities, and those for New York provide good documentation of its decline.

Employment in New York City has been falling as a proportion of national employment for at least a quarter century (Table 1). Such a development was probably inevitable, as more of the nation's economic activity shifted to newly developing areas in the West and Southwest as well as to reviving sectors of the Southeast. But more debilitating to New York City than its slippage in national position is the large decrease in the absolute number of people employed. Since there

Table 1.

New York City Employment by Industry as Percentage of United States Totals

Industry	1950	1960	1970	1976
Goods-producing industries:				
All manufacturing	68	57	40	29
Apparel	283	217	149	119
Printing and publishing	159	140	110	84
Contract construction	53	43	31	19
Service-producing industries:				
Transportation and public utilities	82	79	72	59
Wholesale and retail trade	80	65	49	35
Finance, insurance, and real estate	175	145	125	96
Other services	94	82	68	52
Government: Federal, state, and city	62	49	45	35
Total	77	65	53	40

Sources: United States Bureau of Labor Statistics and New York State Department of Labor

is no evidence of a compensating increase in output per worker, the implication is that the real gross product of the city has also been falling for some time, and estimates made by statisticians in the New York City Office of Management and Budget bear out the point.

The employment history of New York in recent times can be divided into two distinct periods. First came the loss of relative position *vis-à-vis* the nation during the years between 1950 and 1969 when more jobs were added to nationwide payrolls than to local payrolls. Thereafter, the city's position deteriorated both relatively and absolutely. About the time of the 1969-70 recession, New York City began a period of uninterrupted job loss that has not yet been halted, although in recent months it has been slowed. Approximately 600,000 jobs were lost in the seven years from 1969 to 1976, more than twice the gain of the previous two decades.¹ This drastic contraction may have been

¹ These data on jobs are based on information gathered from the payrolls of employers in New York City. Therefore, to some extent they probably overstate the effect on *residents* of the city, since some of the job losses most likely have been suffered by the 669,000 people who lived outside the city but worked in it as of 1970. Unemployment data (see pages 52-53) are a better indication of the effect of job losses on the city's population because these statistics specifically cover the job status of city residents. The unemployment data also capture the employment status of people who live in New York and who commute to jobs *outside* the city, but this is a smaller deficiency as this group only numbered 197,000 in 1970.

abetted by the two national recessions that occurred since 1969, but there have been few signs of improvement during the subsequent recoveries.

A closer look at the payroll data reveals that even the 1950-69 uptrend was far from general. Warnings of the future slippage were evident in several sectors. Employment in the transportation, trade, and construction industries reached their peaks well before 1969. Even worse, total employment in manufacturing began to fall as early as 1948; from 1950 to 1969, more than 200,000 manufacturing jobs were lost. The following six years saw an additional drop of almost 300,000. During 1976, however, there was a relatively small increase in factory jobs. All in all, there are now but half as many manufacturing employees as in 1950. Only in the "other services" and government sectors did job growth continue into the 1970's (Table 2).

If anything could be more discouraging than the loss of 50 percent of all manufacturing jobs since 1950, it is that the losses have pervaded all sectors. Employment in each of the city's major manufacturing subdivisions has declined over the past twenty-six years. The largest losses both in absolute and relative terms have occurred in the apparel industry. In 1948, when apparel employment was at its peak, about 350,000 workers were employed. The city has lost some 200,000 apparel jobs since, about three out of every five. Employment by the city's second largest manufacturing employer—printing and publishing—is down nearly 40,000 from its peak, almost one out of every three jobs.

Jobs outside manufacturing

Employment in nonmanufacturing—which consists of the construction and the service industries as well as government—currently accounts for 83 percent of citywide employment as compared with 70 percent in 1950, and the statistics there are not so unrelievedly gloomy as in manufacturing. Private nonmanufacturing employment grew until 1969; government employment continued growing until 1974. Between 1950 and 1969, private nonmanufacturing employment increased 370,000, with almost all of this growth concentrated in the finance, insurance, and real estate (FIRE) sector and in "other services". The latter category includes employment in such diverse occupations as legal services, the hotel industry, and the health field. But since 1969 private nonmanufacturing employment has declined by 300,000, or 12 percent. Employment in "other services" has been the only private sector component countering this trend; as a whole, however, it too began declining after 1973.

This structural shift in employment from manufacturing to service and government jobs has a deleterious

effect on the city's tax collections. In fact, simply to hold tax revenues at their current level, the manufacturing job losses must be replaced by 4 percent more service jobs or 25 percent more government jobs.² The low value of tax revenues per service employee is due to the relatively low level of average wages in many service industries and to the tax-exempt status of the many nonprofit enterprises in this sector; that of government employees is due to the fact that governments are not liable for property or business taxes.

Nonmanufacturing job losses began to slow in 1976, but several sectors remain extremely depressed. The construction industry is among the nonmanufacturing groups most severely affected. Employment of 67,000 in 1976 amounted to slightly less than half the peak reached in 1962. In this industry, there is some striking information to supplement the employment statistics. Although the city has tried to stimulate construction activity through a limited tax incentive program, only two new office buildings providing 520,000 square feet were completed in 1976. This is the smallest annual addition to office space since the years immediately following World War II. The figures stand in sharp contrast to the average of fifteen buildings or more than thirteen million square feet completed annually during the 1970-72 period. That amount of building,

however, proved to be excessive; a remaining overhang of idle office space from the earlier boom is undoubtedly part of the explanation for the continued low level of building activity.

The rest of the nonmanufacturing industries are classified as "service producing". Of these industries, employment in the transportation segment has been among the hardest hit. Jobs declined from 219,000 in 1960 to 156,000 in 1976. It is reasonable to assume that much of this decline took place in jobs depending on ocean or coastal shipping since partial data available for this sector suggest as much, and the city's port has clearly been losing position in relation to other United States ports. During the same sixteen-year period, jobs in rail transportation decreased by 22,000. The major exception to the overall decline in transportation employment was in the air transport sector—one of the city's few remaining "growth" industries—in which employment improved by almost 15,000.

The FIRE sector, as has been mentioned, was a major source of employment growth through 1969. It has been contracting slowly ever since. Because employment in the FIRE group has diminished relatively less than total employment, this sector's share of New York's total payroll employment rose from 9.7 percent in 1950 to 13.0 percent in 1976. Banking is the largest employer within the FIRE sector and is the only component in which current employment is substantially greater than it was in 1969. Between 1969 and 1976,

² Estimated by Roy W. Bahl and David Greytak in "The Response of City Government Revenues to Changes in Employment Structure", *Land Economics* (November 1976)

Table 2

Changes in New York City Payroll Employment

In thousands, 1950-76

Industry	Employment in 1950	Peak employment Year	Peak employment Level	Employment in 1976	Change 1950-76	Change Peak to 1976
Goods-producing industries:						
All manufacturing	1,038.9	1947	1,072.9	544.2	-494.7	-528.7
Apparel	340.7	1948	354.0	154.3	-186.4	-199.7
Printing and publishing	119.2	1962	128.9	90.1	-29.1	-38.8
Contract construction	123.0	1962	137.3	66.5	-56.5	-70.8
Service-producing industries:						
Transportation and public utilities	331.5	1951	344.4	263.8	-67.7	-80.6
Wholesale and retail trade	754.8	1957	761.1	626.8	-128.0	-134.3
Finance, insurance, and real estate	336.2	1969	465.6	416.1	79.9	-49.5
Other services	507.7	1973	791.2	766.9	259.2	-24.3
Government Federal, state, and city	374.4	1974	583.7	517.0	142.6	-66.7
Total*	3,468.2	1969	3,797.7	3,203.0	-265.2	-594.7

* Includes mining

Sources: United States Bureau of Labor Statistics and New York State Department of Labor

banking employment grew by 8.0 percent, or 10,000 jobs. This rise can largely be credited to an increase in both retail and international banking activities.

Curtailement in the securities industry

Meanwhile, the securities industry experienced a drastic job curtailment. Employment fell from 105,000 in 1969 to 70,000 in 1976. Several factors appear to be responsible for the cutback. The bull market of the 1960's and the "back-office crisis" of those years caused securities firms to increase their staffs greatly, particularly in sales and clerical positions. But, as a result of the ensuing decline in the volume of stock market transactions, many of these newly hired employees were laid off. Staff reductions also included personnel engaged in ancillary services such as research and analysis. Layoffs were accelerated as several firms closed and others merged. In addition, back-office performance was improved by intensive computerization, which reduced the demand for clerical personnel and eliminated the need to do paperwork near its origin. Job rosters in the remaining FIRE sectors—insurance and real estate—have shrunk gradually since at least 1958 (the earliest year for which data are available). In all, FIRE employment has declined by 50,000 since 1969.

Employment in the traditionally strong "other services" has also been curtailed, but on the whole beginning only in 1974. The number of jobs hit a peak of 791,000 in 1973, and by 1976 was down by just 24,000. Part of this decline is attributable to the situation in health services. Budgetary problems of both public and private hospitals and the closing of nursing homes have all contributed to a weakening of demand for the specialized personnel and the general workers essential for such institutions. Employment in hotels also has declined, largely because some of the major ones have closed. Other sectors, however, have countered these declines. For example, employment in legal services, based on insured employment data, has grown from 28,000 in 1969 to 37,000 in 1976.

Of all the categories included within the other services sector, broadcasting and advertising have long been among those in which New York is a national leader. Employment data for these industries are not available on a consistent basis, but estimates indicate that since 1969 there have been fewer jobs in advertising but more in radio and television. As of 1972, the advertising industry directly employed 33,000 persons, 15 percent less than in 1967. (Nevertheless, roughly two thirds of the largest United States agencies, based on annual billings, still had their headquarters in New York in 1975.) In contrast, employment in the broadcasting industry reached 20,000 in 1972, an

increase of approximately 27 percent above 1969. There is reason to believe that this job growth has continued. Permits to television units for shooting outdoor scenes in New York City increased 20 percent between 1967 and 1975. While twenty-three films for either television or movie theatre use were made in New York in 1974, forty-eight were produced in 1975 and fifty-three in 1976. This gain in local film making came after some adjustments were made in work rules.

A cut in municipal jobs

While widespread job losses occurred in most private industries throughout the 1960's and 1970's, public sector employment at the state and local levels continued to expand in New York City through 1974. Between 1960 and 1974, the peak year for such employment in New York City, there was a 67 percent rise. Although this is less than the 88 percent increase in state and local employment experienced by the nation as a whole over this same period, it should be noted that, unlike the national economy, the city economy was contracting during this time. In New York City, the growth in municipal employment came to a halt when the city's fiscal crisis surfaced. Approximately 60,000 positions—one out of every eight jobs—were eliminated from the city's payroll in 1975 and 1976. These layoffs reduced city government jobholders from 12.9 percent of the total employed in 1974 to 12.0 percent in 1976.³ Payroll reduction is still going on but is mainly being accomplished by not filling openings that arise from normal attrition and retirement. Given the prospect that New York will remain under fiscal siege for quite some time, it seems unlikely that municipal employment in the city will rise much, if at all, in the future.⁴

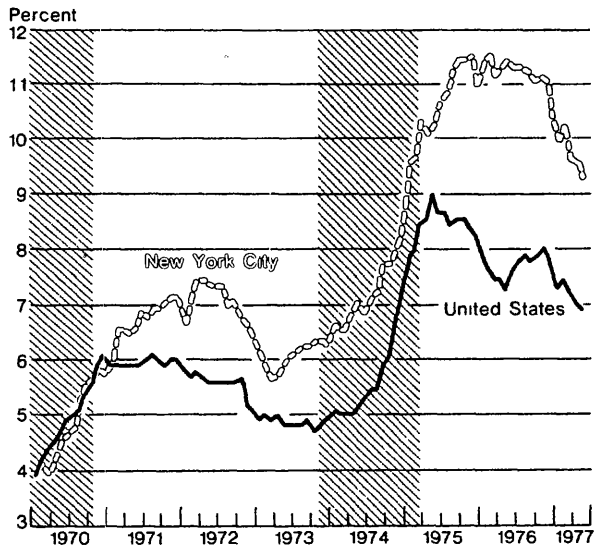
The statistics on unemployment to a large extent complement the employment statistics, although the former are available only since 1970. As can be seen in Chart 1, the local unemployment rate has been consistently above the national rate beginning in early 1971. Moreover, the differential between these two rates continued to increase until May 1976. Since then, it has gradually narrowed somewhat.

Unemployment among city residents may be even worse than the published numbers indicate. In a trend quite the reverse of that prevailing nationally, the labor force in New York City has declined from 3,300,000 in 1970 to 3,100,000 in 1976. Part of the de-

³ These calculations are based on data from the New York State Department of Labor.

⁴ New York State's employment rolls in the city dipped slightly after 1975. Employment in the city by the Federal Government has been declining moderately since the early 1960's.

Chart 1
Unemployment Rates
 Seasonally adjusted *



Shaded areas represent periods of recession as defined by the National Bureau of Economic Research.

* New York City data were seasonally adjusted by the Federal Reserve Bank of New York

Sources United States Bureau of Labor Statistics and New York State Department of Labor

crease occurred as some residents moved away either because their jobs went elsewhere or because of a growing dislike of city living. However, the decline in the labor force was greater than that in the working age population, thus factors other than migration were involved. A substantial portion of the reduction would seem to have developed as some of the unemployed grew discouraged to the point that they simply stopped looking for jobs. Another part is surely due to the fact that some youngsters thought their job chances so small that they never entered the labor force at all.

Declining labor force participation rates⁵ bear out hypotheses such as those above. In sharp contrast to the national experience, the civilian labor force participation rate of the total New York City population declined from 57.0 percent to 54.4 percent between 1969

⁵ The civilian labor force participation rate is the proportion of the noninstitutional population 16 years of age and over that has a job or is looking for work

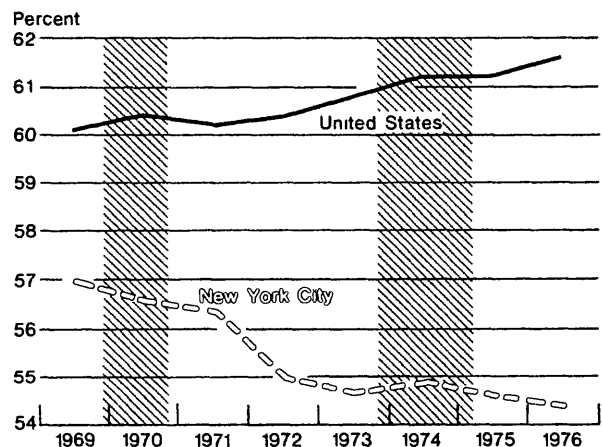
and 1976. During this same period, the total United States participation rate rose from 60.1 percent to 61.6 percent (Chart 2). The divergence in participation rates among those 16 to 19 years of age is even more striking. Nationwide, the teenage participation rate rose from 49.4 percent to 54.6 percent; locally, it fell from 36.9 percent to 31.5 percent.

The changing demographic profile

The demographic and related socioeconomic changes taking place in New York City have also contributed to the weakening of its economic base. The population mix has increasingly shifted to people who have lower education and income levels. In addition, the population losses have been greatest among people in what are generally considered the most productive working years, 18 to 64. Such developments have made a greater proportion of New Yorkers dependent on the city government for the provision of services and at the same time have weakened the city's ability to generate the revenues needed to provide these services.

New York City's total population declined slightly between 1950 and 1960 but remained relatively stable at around 7.8 million during the following ten years. Its composition, however, radically and rapidly altered during the 1960's. During this latter period, there was

Chart 2
Civilian Labor Force Participation Rates



Shaded areas represent periods of recession as defined by the National Bureau of Economic Research

Source United States Bureau of Labor Statistics

an emigration of almost 1 million whites, which was more than balanced by a combination of immigration and natural population increase. This immigration consisted of nearly half a million blacks, other nonwhites, and Hispanics, an absorption greater than that of Chicago, Los Angeles, Philadelphia, and Detroit combined. The nonwhite and Hispanic population of New York City was approximately 13 percent of the total population in 1950, 22 percent in 1960, and 36 percent in 1970.⁶ Starting in 1970 the city's total population slowly began to contract, reaching 7.5 million by 1975, but its black population remained relatively stable and its Hispanic population continued to grow.⁷ Together the city's black and Hispanic groups accounted for 41 percent of the total population in 1975.

Along with the change in the ethnic makeup of the city, there has been a marked shift in the age composition of its residents. Between 1950 and 1975, the proportion of the population under age 18 in the city grew to 28 percent of the total. In the same period, the city's population 65 years of age or over rose from 8 percent of the population to 13 percent. Thus, those aged 18 to 64, the age group from which the bulk of the labor force is drawn, dropped from 68 percent to 59 percent of the city's population. Nationally, the proportion of the population aged 18 to 64 fell appreciably less, from 61 percent in 1950 to 58 percent in 1975.

A loss in income position

The economic well-being of New York City residents, of course, depends directly on their incomes. In 1950, per capita personal income in the city was 42 percent higher than in the nation and 12 percent higher than in New York State. By 1970, these differences had narrowed to 22 percent and 3 percent, respectively. This trend continued at least through 1975, by which time the divergence between city and national and city and state per capita personal income was 13 percent and 2 percent.

Demographic changes have played some role in this pattern. Both the age and the ethnic groups that grew most rapidly in New York typically have below average incomes. For example, the median income in 1973 for all New York City families was \$10,921, but for those in which the household head was 65 or older the median income was \$6,670.

The disparity in incomes between white and other

families is general throughout the United States but, because of the growing segment of the city's population that is Hispanic or nonwhite, this disparity has especially important consequences for New York City. It began to narrow in the late 1960's but appeared to widen again in the early 1970's. The latest data now available are for 1973 when, for the first time, data on Hispanic incomes were gathered separately from those of whites and nonwhites in the annual surveys conducted by the United States Bureau of the Census. It turned out that median white family income in New York City in 1973 was \$13,273; for nonwhites it was \$7,728, or 58 percent of the white median; for Hispanics it was \$7,572, or 57 percent of the white median.

The differences are further highlighted at the extremes. At the low end, approximately 22 percent of nonwhite families and 16 percent of Hispanic families had incomes of less than \$4,000, compared with 9 percent of white families. At the high end, only 19 percent of nonwhite families and 15 percent of Hispanic families had incomes of \$15,000 or more, compared with 41 percent of white families.

Greater suburbanization explains much of the population and income changes which have occurred among New York City residents. The larger number of people who choose to work in the city but live outside is one indication of the exodus of the middle class from New York. This has resulted in the city's resident population becoming increasingly composed of either low-income or upper-income residents. Between 1960 and 1970 the number of people with jobs in the city who commuted to work from the suburbs grew by 28.8 percent, from 519,000 to 669,000. In the same period, the number of people who both work and reside in the city fell from 3,163,000 to 2,994,000. Commuters comprised 18 percent of the total employed in 1970. Approximately 43 percent of those commuters held professional, technical, and managerial jobs, compared with only 23 percent of the city's residents.

It should not be assumed that the movement from inside to outside the central city is limited to whites. The number of nonwhites living outside the central city but within the New York Standard Metropolitan Statistical Area grew by 55 percent between 1960 and 1970. To be sure, the numbers involved were still small; in 1970 this latter group numbered only 217,000. The figure is probably much greater now.

Is the worst over?

Recently there have been some signs that the worst may be over for New York City's economy. During 1976, manufacturing employment rose by more than 7,000 jobs, the first such increase since 1965. Moreover,

⁶ These estimates include blacks plus Puerto Ricans. Only beginning with the 1971 Current Population Survey can the data for total Hispanics be obtained separately from those for all whites and all nonwhites.

⁷ Census data do not contain any allowance for the purportedly large number of illegal aliens residing in New York.

during the first five months of 1977, there has been a relative slowing in the rate of overall job loss as compared with the same period in 1976

Another important indicator of the performance of the city's economy is retail sales. The latest readings—measured in constant dollars—show signs of limited recovery. Sales kept declining beyond the end of the last national recession, in part because the massive layoffs of city employees came after the national business recovery had begun.

Since the second half of 1976 there has been a relatively higher level of retail sales activity (Chart 3). The state's blue laws that prohibited the conduct of business on Sunday were relaxed at that time, and many retailers feel that Sunday openings have provided stimulus to previously lagging sales; the upturn may indeed reflect this.

The Sunday openings of the larger department stores have spillover effects. These effects include bringing customers to other nearby businesses as well as an

extra day's work for regular staff or jobs for new employees. There is, of course, a possibility that, as the novelty wears off, any total sales increases generated by Sunday store openings will vanish.

Several significant signs of improvement in New York's competitive position have also appeared. One is a comparative moderation in the rate of price increases in the New York area. During recent months, rises in consumer prices in general have been less here than in such other major metropolitan areas as Philadelphia and Los Angeles. Moreover, in 1976, for the second consecutive year, the annual gain in consumer prices in the New York-Northeastern New Jersey region was below that of the nation as a whole.

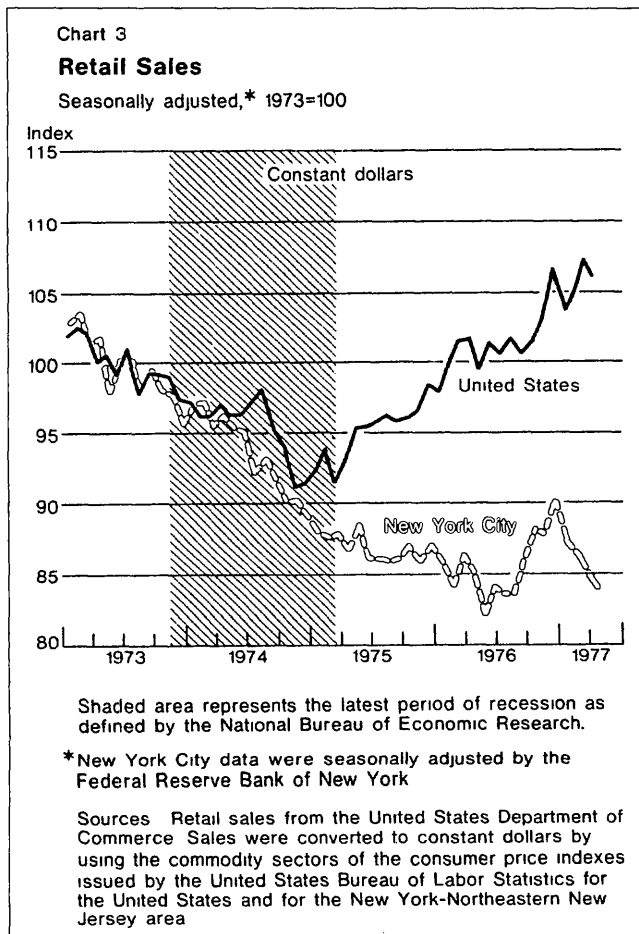
Nevertheless, New York continues to be a comparatively high cost-of-living area, as reflected in the annual costs for a family of four living on an intermediate level budget. The United States Bureau of Labor Statistics calculated these costs to be \$18,866 in the New York-Northeastern New Jersey area during the autumn of 1976, 16 percent higher than the average for all urban areas in the United States. Boston was the only city in the continental United States for which this budget calculation was higher than for New York.

The rate of wage increase, however, does appear to be slowing in New York City relative to other areas of the country, although hourly wage rates continue to be comparatively high. Average hourly earnings of office clerical workers rose by 6.4 percent in the city for the year ended in May 1976. They rose by 7.8 percent in both Chicago and Houston, by 7.2 percent in Atlanta, and by 6.9 percent in Boston. But a recent survey of four white-collar positions showed that average hourly earnings for secretaries, keypunch operators, clerks, and draftsmen in New York were still much higher than for their counterparts in Boston, Chicago, Atlanta, or Houston. Of the two blue-collar positions surveyed—shipping and receiving clerks and maintenance mechanics—wage costs were in most cases comparable to those in other cities and in several instances, those in New York were lower.⁸

Signs of revival in construction

There is also some indication of a growing awareness among workers of the importance of holding down wages in order to remain competitive with other regions and not to lose additional employment. A prime example is in construction. The severity of the construction standstill in New York has induced the various unions in the industry to revise long-established work rules in the hope that building activity would be

⁸ Temporary Commission on City Finances, *Economic and Demographic Trends in New York City: The Outlook for the Future*, Thirteenth Interim Report to the Mayor (May 1977)



stimulated. More than that, the major unions have agreed to accept a 25 percent cut in wages and fringes for work on rehabilitation projects, virtually the only type of building project being undertaken in the city. Such work may include anything from minimal repairs to rehabilitating the entire core of a structure.

As a result of the effort to reduce labor costs in construction, the city received an immediate boon. A Federally sponsored program for housing rehabilitation was stepped up recently from 2,500 to 5,000 apartments precisely because of the reduction in costs. This program is expected to create jobs for as long as six months for at least 15,000 unionized building trades workers who will earn 25 percent less than their normal contract rate. The work on these projects should begin sometime later this year.

Another spur to construction employment may come from the Westway program. This program is designed to reconstruct the lower portion of the West Side Highway that runs along the Hudson River and to integrate it into the interstate highway system. If Westway materializes, it is expected to furnish an average of 14,000 man-years of on-site construction jobs over an eight-year period, and this estimate does not include related off-site work.

Commercial building activity is not likely to revive in the short run. There is, however, promise for the future since the amount of vacant office space declined during 1976, due both to the lowering of rental rates to more competitive levels and to the increased occupancy of the large amounts of space that were built in the 1970-72 boom.

The city will also benefit if Federal aid formulas that allegedly favor the "sunbelt" are revised to take into account the problems of the older areas of the Northeast and Midwest. A greater infusion of Federal aid might enable the city to ease to some extent the current tax burden on businesses and individuals. The housing and development bill pending in the Congress is a good example of such a reform. It is designed to rehabilitate some older cities and to help newer ones with housing shortages. Money for housing projects in the bill would be allocated on the basis of either of two formulas: the first, which will primarily be used by the newer cities, is based on population, overcrowded housing, and degree of poverty; the second, which will primarily be used by the older cities, is based on degree of poverty, age of housing, and lags in population growth as compared with that of all of the larger cities. The latter method of allocation is designed to prevent the older cities of the Northeast and Midwest from losing Federal funds to the faster growing ones. New York City's per capita share will reach \$24 under the first formula, but it will reach

\$34 under the second. Even larger increases in payments will be realized by such cities as St. Louis, Cleveland, Buffalo, and Detroit.

The new Federal countercyclical aid program that will distribute funds to states on the basis of their unemployment rates is another example of a change in the method of distributing Federal aid which seems more equitable to older areas.

Many problems remain

Despite such signs of change, enormous problems remain. Among the most difficult is the tax burden presently borne by the city's businesses and individuals. Not only are there numerous taxes, but they are levied at a high rate. Consequently, the tax burden alone is in many cases sufficient to cause the migration of both businesses and individuals. While the need for changing the tax structure is widely recognized, actual tax reform is most difficult. To remain competitive over the long run, the city will have to reduce the tax burden closer to that prevailing in other cities and regions. However, the delicate balance in the city's budget precludes making any immediate sweeping reductions. As a result, steps are being taken toward lowering tax burdens, but with due regard for the short-run constraints imposed by the need to keep the budget balanced.

The proposed budget for fiscal 1977-78 includes almost \$100 million in tax reductions for existing businesses, as well as a series of lower taxes that will apply to new businesses. An effort to maintain the real estate tax rate at its 1977 level for the next five years has been pledged, and various individual tax abatement packages designed to keep or attract specific industries or businesses have been constructed. In addition, the state legislature has repealed the bond- and stock-transfer taxes levied on securities dealers—taxes which were considered influential in the decision of several brokerage houses to leave the city. The city now proposes to phase out the stock-transfer tax paid by brokers on each transaction they execute for the public. (For technical reasons, this will be done through offsetting tax credits.) New York is the only city in the country to levy this kind of tax.

The Temporary Commission on City Finances, a specially appointed mayoral commission, has conducted several studies regarding the effect of particular taxes on the city's economy. As a result of one of these studies, the commission has assembled a major tax reform package aimed at reversing the outflow of manufacturing firms. The package includes a reduction of the general corporation tax as applied to manufacturers; the elimination of the city sales tax on the purchase of machinery, equipment, fuel, and utilities;

the introduction of an investment tax credit against the general corporation tax for the purchase of manufacturing machinery, equipment, and structures; a reduction of the commercial rent occupancy tax; and additional exemptions from the property tax for newly constructed manufacturing facilities. Even if this total package of proposals is enacted, restoring the city's manufacturing industry remains an extremely difficult task in the face of such other obstacles as congested business districts, aging facilities, and rising crime rates—problems for which New York and so many other older cities are seeking solutions.

Other businesses in New York City are similarly subject to taxes which they feel are onerous. Commercial banking, for example, is one such industry. While commercial banking is highly concentrated in the city, it cannot be considered a captive industry. Swifter communications and increasing computerization create an opportunity for banks in other urban centers to expand. Other cities can educate or lure from elsewhere the cadre of highly trained personnel needed. However, New York can exert some influence on how much banking business remains here by changing the taxes it levies on the industry. The combined city and state taxes levied on a commercial bank's net taxable income in New York City is 25.8 percent in 1977, higher than similar taxes in any other locality. In comparison, the state tax burden in Massachusetts is 12.5 percent and in California it is 13.0

percent. There are no municipal taxes in these states. In addition, the rate of taxes levied on commercial banks is higher than the 20.05 percent being imposed on general business corporations in New York City for 1977. All in all, the present tax system creates incentives for New York banks to locate facilities and transactions outside New York State to the extent they find feasible.

The tax burden on individuals is also great in New York City. A study carried out for the District of Columbia compared the tax burden on a family of four at different income levels in thirty of the nation's largest cities. The burdens include state and local income taxes, state and local sales taxes, automobile taxes, and residential property taxes that were adjusted for intercity differences in property values. At each income level, the combined state-local tax burden of New York City residents was found to be either second or third highest. For example, families having an adjusted gross income of \$15,000 carry a tax burden of \$1,977 in New York, \$1,214 in Atlanta, and \$858 in Houston.

Business on the move

The current tax burden must be considered part of the explanation for the continuing exodus of both smaller and larger businesses. Unquestionably, New York has been losing status as a headquarters city (Table 3). Among manufacturing and mining companies, for example, 140 of Fortune's 500 largest industrial firms were headquartered in New York City in 1956, in 1976, less than two thirds remained. Yet despite the numerous desertions, New York City is still home to far more major industrial companies than any other city. The 84 of the Fortune 500 firms based in New York at the end of 1976 were more than triple the 27 in Chicago, the next city in line.

There is even some indication that the relocation trend may be ebbing. Some companies confronted with a decision to relocate are choosing to remain (And a few that have left are returning.) The primary reasons such companies give are a desire to avoid inconveniencing employees who will have to move, a belief that any resultant tax benefits would be outweighed by loss of convenient contact with communications and other services, a visible improvement in the city's business climate, and the availability of office space at competitive rates. Many companies that have left New York have only moved to the surrounding suburbs, seemingly wishing to remain fairly close to the services still available in Manhattan and yet far enough from the city to enjoy the amenities of suburbia.

Onerous taxation and the loss of business enter-

Table 3

Fortune "500" Companies in Major Cities 1956 and 1976

City*	1956	1976	Change
New York	140	84	- 56
Chicago	47	27	- 20
Pittsburgh	22	14	- 8
Detroit	18	6	- 12
Cleveland	16	14	- 2
Philadelphia	14	7	- 7
St. Louis	11	12	+ 1
Los Angeles	10	13	+ 3
San Francisco	8	6	- 2
Boston	7	5	- 2
Total	293	188	- 105

* The ten cities are ranked in order of number of headquarters in 1956.

Source "The Fortune Directory of the 500 Largest U.S. Industrial Corporations", *Fortune* (July 1957 and May 1977)

prises highlight the difficult problems facing New York City. But, unlike other urban centers which are largely dependent on one or two major industries, the city is fortunate in that it has remained strong in so many other diverse areas.

A prime financial center

New York continues at the forefront of world finance. It is a focal point both for domestic and international money and financial market activity. As of December 31, 1976, Federal Reserve member banks headquartered in New York City held almost 20 percent of the total assets of all the System's member banks, and the New York branches of foreign banks held 80 percent of these banks' total assets in the United States. Moreover, it appears that the city's importance as a center for foreign banks is continuing to grow. During 1976, twenty-one foreign banks opened branches or agencies in New York. The city's increasingly important position in international banking and financial activity serves as a magnet that draws the American headquarters of foreign corporations to the city.

New York is also a leading center for securities exchanges. Together, the New York and the American Stock Exchanges handle more than 85 percent of the trading volume of all listed corporate shares in the United States. In addition, several major commodity exchanges are located in the city, including the New York Cocoa Exchange, the New York Coffee and Sugar Exchange, and the New York Cotton Exchange.

Other key assets of New York

Tourism, whether for pleasure, or as a by-product of business travel, is a bulwark of the city's economy, and it provides many jobs for both skilled and unskilled workers. In addition to an abundance of museums, art galleries, performing arts centers, theaters, and sports arenas, there are an almost endless variety of other tourist attractions. And, while many cities are also home to zoos, parks, and botanical gardens, such points of interest as the United Nations, the Statue of Liberty, and the Metropolitan Museum of Art, are to be found only in New York City. Approximately 16.5 million visitors spent an estimated \$1.5 billion in the city during 1976. Hotel occupancy was 73 percent, the first time the rate topped 70 percent since 1969 when the recorded peak of 75.4 percent was established.

There were some special circumstances during 1976, however. The presence of the Democratic National Convention and the World Series brought in more visitors than normal. Many of these visitors took away a far more favorable opinion of New York than they had arrived with. The central role that the city played in the nation's bicentennial celebrations also

made a positive impression on both visitors and television observers of the events. It remains to be seen whether the improved image that the city achieved last year will be translated into longer run gains in tourism. The evidence so far in 1977 is favorable.

According to a recent survey, at least one quarter of all tourists visit New York solely for cultural activities. In addition to the numerous units of the state and courage, cultural institutions are often instrumental in regenerating and preserving their surrounding neighborhoods. For example, beginning in 1952, five major houses in which to present music, dance, and drama were built in the new "Lincoln Center". The Center's success has led to an additional \$1 billion of new residential and commercial construction in the immediate area since 1956.

The large number and the variety of cultural institutions as well as hotel and restaurant accommodations also provide incentives for businesses to hold meetings and conventions in New York. It may be possible to attract more conventions either by improving existing facilities or by constructing at least one new and large convention center. Several proposals for a new center have been drawn up.

New York is also famous for its diverse educational facilities. There are few other places that can boast of as great a concentration of colleges and universities. In addition to the numerous units of the state and city university systems, there are more than thirty independent institutions, many of international repute.

The various private and public educational institutions in the city are facing great financial pressures caused by such factors as declining enrollments, high wages, and soaring energy costs. They have made, however, some small beginnings toward better usage of their resources. In recent months, for example, there have been attempts to coordinate similar graduate programs offered at competing universities. Better coordination will help the city's higher education complex to maintain its depth and diversity and to make more effective use of its resources; it will also help to provide the scores of highly trained employees that are required by a large number of the city's industries.

On the waterfront

New York possesses one of the world's great natural harbors, an important asset since the city was founded. But New York's early overwhelming dominance in both international and domestic commerce and trade has diminished. Competition from other United States ports, both on the East and West Coasts, the evolution of new world trade routes, and the aging and deterioration of the Port's facilities have combined to lessen this domination. The Port of New York's share

Table 4

Customs Collections

In thousands of dollars; selected fiscal years

Rank	1967	1970	1972	1974	1976
1	New York 956,776	New York 1,091,257	New York 1,290,340	New York 1,233,665	New York 1,351,150
2	Los Angeles 173,055	Los Angeles 285,738	Los Angeles 373,355	Los Angeles 443,228	Los Angeles 583,609
3	Detroit 166,551	Detroit 239,879	Detroit 294,549	Detroit 270,820	Detroit 289,818
4	Philadelphia 134,082	Chicago 152,975	Chicago 221,705	San Francisco 207,171	San Francisco 241,001
5	Chicago 114,755	Philadelphia 148,579	San Francisco 182,789	Chicago 183,966	Philadelphia 211,684
Sum of 2-5	588,443	827,171	1,072,398	1,105,185	1,326,112
New York as a percentage of the sum of 2-5	162.6	131.9	120.3	111.6	101.9

Customs collections in New York include those at the seaport and those at Kennedy International Airport.

Source Department of the Treasury, United States Customs Service.

of total United States oceanborne general cargo trade declined from 24.7 percent in 1959 to 10.6 percent in 1976, although the actual volume of tonnage increased over this period.

Customs collections in New York, which include those at the seaport and those at Kennedy International Airport, have remained the highest in the nation and are still larger than those in the next four highest districts combined. But this gap has been narrowing (Table 4). In fiscal 1967, customs collections in New York were 163 percent of those in the next four districts; by fiscal 1976, they were 102 percent. Moreover, a growing proportion of New York's customs collections have been coming in through Kennedy Airport. If it were not for the rapid growth in airport collections occurring during the 1970's, New York's lead would have been narrowed even further.

One important step recently taken to increase the Port's business was a lowering of the tonnage assessment levied on almost all oceanborne freight—a result of a joint labor-management agreement. This assessment, which has been gradually reduced since 1968, is used to pay for various benefits to dock workers.

(Because the volume of tonnage rose, the assessment could be decreased while keeping benefits the same. In other ports, these benefits are financed more directly by an assessment on each hour worked by longshoremen.)

The future

The erosion of the Port's position has been under way for about a quarter century, while serious attempts to recapture some of its lost ground are only at their beginnings. That history is pretty much typical of the fortune of the entire city. For many years—as the nation's urban centers underwent a decline—New York City either failed to see its many problems or, seeing them, failed to attack them vigorously. As a result, the city has suffered a severe loss of business, of jobs, of people, and—not least—of reputation. Yet, despite all its misfortunes, New York still endures and retains a basic core of strength—in commerce, industry, finance, culture, the arts—that continues to make it a world center. These assets provide a foundation for building a future of renewed vitality and strength, however difficult that task may be.

Rona B. Stein