p.i.d.a.—a look at state-wide ventures in industrial development

philadelphia business trends since mid-1957

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To a manufacturer, industrial development means modern, low-slung, one-story factory buildings, spacious, garden-like industrial parks, and long-term capital at low interest rates. To a worker, it means a steady job with a good firm in the home community, bread in the bread box, and milk in the icebox. To a hard-pressed community, it means new schools, freshly paved streets, and a happy people with pride in accomplishment. In a word, industrial development is a good thing. To a community buffeted by the ill winds of economic change, it may be an absolute necessity.

In Pennsylvania, communities facing economic difficulties have long been active in promoting and financing industrial development. (See the Business Review, December 1952, "Operation Bootstrap — A Second Look.") Community development corporations have been organized to raise funds, purchase land, construct buildings, and attract new industry. In 1956, the Pennsylvania Industrial Development Authority — P.I.D.A. for short — was established to relieve communities in “critical economic areas” of part of the burden of financing industrial growth.

P.I.D.A. is a public corporation with state-appropriated funds. It takes second mortgages on manufacturing buildings and facilities and makes loans to non-profit community development corporations in areas in which there has been serious and persistent unemployment. As shown in the
PENNSYLVANIA INDUSTRIAL DEVELOPMENT AUTHORITY

Summary of Loan Activities
JULY 31, 1956—JULY 1, 1958

<table>
<thead>
<tr>
<th>P.I.D.A. Loans</th>
<th>Estimated Project Cost</th>
<th>Planned Employment</th>
<th>Estimated Annual Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>27</td>
<td>$3,653,279</td>
<td>$11,665,146</td>
</tr>
<tr>
<td>Awaiting disbursement</td>
<td>27</td>
<td>2,649,758</td>
<td>6,860,473</td>
</tr>
<tr>
<td>Sub-total</td>
<td>54</td>
<td>6,303,037</td>
<td>18,525,619</td>
</tr>
<tr>
<td>Applications pending or under negotiation</td>
<td>3</td>
<td>540,000</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
<td>$6,843,037</td>
<td>$20,323,619</td>
</tr>
</tbody>
</table>

accompanying table, between July 31, 1956 and July 1, 1958, P.I.D.A. approved 54 loans amounting to more than $6 million. Communities and financial institutions—banks, insurance companies and, in one case, the Small Business Administration—are investing over $12 million in the same projects. It is estimated that around 10,000 jobs will be created with annual payrolls amounting to nearly $30 million.

The need for development

One way to measure the need for development in an area is to look at the number of people out of work.

P.I.D.A. loans are made only in areas which have had 6 per cent or more of the labor force unemployed for at least 3 years, or 9 per cent for at least 18 months. The Authority may define an area as including any municipality or group of municipalities, county or group of counties, or region of the Commonwealth.

The map of Pennsylvania shows the location of communities in which P.I.D.A. has made loans—all of them in critical areas at one time or another since mid-1956. The scatter of distressed communities around the state gives an idea of the size of the development problem.

The current recession has shifted many areas of Pennsylvania into the critical category. But the fact remains that many areas were critical long before the current recession took hold, and many probably will have unemployment problems after this recession has become just another old statistic. The unemployment P.I.D.A. was set up to combat is the hard-core kind; it follows principally, in the wake of long-run economic change.

Back around the turn of the century, the three pillars of economic prosperity in Pennsylvania were forests, minerals, and manufacturing. The first two have since suffered serious erosion. The hemlock, oak, and white pine forests of Pennsylvania provided jobs and incomes for thousands of lumbermen for many years. But the trees were cut indiscriminately and in the early 1900’s, the resource was depleted. The lumber camps moved on to greener pastures and virgin stands.

In the 1920’s, the development of oil and then gas as home heating fuels began to reduce the
number of workers needed in both the anthracite and bituminous fields. About the same time, the textile industry began its long trek South in search of cheaper labor. The “diesel-ization” of the railroads following World War II also dealt a harsh blow to the economic well-being of several Pennsylvania communities.

Economic and technological changes, of course, have a much brighter side. For the United States, as a whole, improvements in tools, machines, equipment, and products have provided remarkable economic gains. For example, according to one survey of 25 manufacturing industries, average working time fell 23 per cent between 1914 and 1948; during the same period the goods and services a factory worker could purchase with one hour’s pay rose 134 per cent.
Pennsylvania has shared in this progress. But in adjusting to it, Pennsylvania has also had its share of miseries—high unemployment and low incomes.

And readjustment has been harder than an aloof resort to fundamental principles might lead one to expect. In our economy job opportunities are always expanding in some places and contracting in others. If the available jobs throughout the United States and the available workers could always get together without delay, most of Pennsylvania's unemployment problem would probably not exist. But movements of jobs and workers take time and the movement of workers is particularly difficult. People, unlike jobs, develop affections, loyalties, and habits. They are often quite reluctant to leave their homes. When a community or state undertakes industrial development, it is saying, in effect, that it would rather move jobs to people than people to jobs.

The need for state action

But it isn't easy, either, to move jobs to people. It takes a lot of money to purchase land, construct buildings, and obtain manufacturing tenants.

Communities in the Third District have raised funds for development in a variety of ways. The town of Jim Thorpe, formerly Mauch Chunk and East Mauch Chunk, conducted a 5¢-a-week contribution campaign. Hazleton raised the ante to 10¢-a-week and put collection buckets in factories, restaurants, and bars. Other communities have asked only business and professional people for contributions. Still others have sold bonds to supplement contributions.

Then, frequently, they have put up shell buildings on speculation—that is before a tenant is found—in the hope of attracting a manufacturing concern. But this means the communities must carry the full cost of the project until the building is occupied and a first mortgage, typically financing 50 to 60 per cent, is arranged.

While Pennsylvania communities have done and can do a great deal on their own, by 1956 state officials and local development corporation people felt that repeated drives for money had taken their toll.* It was becoming more difficult to collect the funds needed to finance new projects. And it was felt that the development problem was not being solved by communities alone. The "bootstrap" operation was, and is, admirable, but it is also, understandably, limited.

P.I.D.A. financing

State officials and legislators decided that the need for industrial development in Pennsylvania demanded a new approach. P.I.D.A., with $8 million in state-appropriated funds, was established to help meet this need. The way in which it functions evolved out of the industrial development experience of Pennsylvania communities; as a new institution, it was grafted onto an already existing variety of local organizations.

P.I.D.A. is composed of an eleven-member board of directors. The Secretary of Commerce is chairman. The Secretaries of Labor and Industry, Internal Affairs, and Banking also sit as members. There are seven public members appointed by the Governor. The public members at present include two industrialists, the president of a radio station, a railroad man, a coal mine operator, a banker, and a newspaper man—a diversified group, but one which has a real and immediate stake in the economic development of Pennsylvania.

In making loans, the board has the power to determine the rate of interest and the maturity and,

* In the years following World War II and prior to the establishment of P.I.D.A., 52 Pennsylvania communities with the help of local banks financed 151 factory buildings. The Pennsylvania Department of Commerce has calculated the total investment as $54,522,200, and the number of jobs created at 31,000.
within limits, to define the boundaries of the relevant "economic area" in the phrase, "critical economic area." The board may approve or disapprove a loan on the basis of the financial and economic facts presented in the loan application, as well as on the basis of what the law requires.

PENNSYLVANIA'S INDUSTRIAL DEVELOPMENT AUTHORITY ACT

The Act of May 17, 1956 empowers the P.I.D.A. to make loans to non-profit community industrial development agencies in "critical economic areas," for the purpose of financing the construction of buildings to house manufacturing establishments. P.I.D.A. is permitted to take second mortgages on its loans. A single loan may amount to no more than 30 per cent of the estimated cost of the project, including real-estate and construction costs. The local industrial development corporation must provide not less than 20 per cent of the cost of the project. The local corporation must have a firm first-mortgage commitment from a private financial institution—a bank, insurance company, or savings and loan association—for the remaining 50 per cent of the project cost. The local corporation must also have a firm commitment from the prospective tenant or buyer of the plant or facility. A building is typically made available to the manufacturer on a lease-purchase arrangement. P.I.D.A. is restricted from making loans that have as their purpose the relocation of a firm from one part of the Commonwealth to another. When the Act was passed, P.I.D.A. was given a $5 million appropriation and an additional $3 million was authorized in 1957.

Let's suppose a local development corporation—we'll call it the Longview Industrial Fund of Tuminous County (LIFT)—convinces an expanding, out-of-state manufacturer to set up a branch in its area by promising to provide a new building. If LIFT is prepared to invest an amount equal to 20 per cent of the cost of constructing the building and can obtain a first mortgage commitment for 50 per cent, it can ask P.I.D.A. to take a second mortgage for 30 per cent.

LIFT's application for a loan would be taken up at a P.I.D.A. board meeting. The board would decide whether Tuminous County qualified as a critical economic area and, if so, whether the loan would be a sound investment.*

If the board decides to make a loan, it must also determine the interest to be charged and the maturity. If LIFT has indicated that it will charge between 2 per cent and 3 per cent on its 20 per cent participation, by board policy the interest rate on the P.I.D.A. loan will also be between 2 per cent and 3 per cent. If LIFT decides to go higher in its interest rate, P.I.D.A. will go higher too. The board's object is to keep the interest charged by the local corporation low. The average rate of interest on P.I.D.A. loans, plus the 20 per cent equity of local corporations, has been around 3 per cent.

If LIFT agrees to defer amortization payments on its loan until the first mortgage is retired, the board will do likewise. But after the first mortgage is paid, the interest rate on the P.I.D.A. loan will increase to that formerly charged on the first mortgage. The interest rate on first mortgages has generally been between 4 per cent and 6 per cent.

The term of the P.I.D.A. loan to LIFT may run to 25 years. Typically, P.I.D.A. loans have run between 12 and 18 years.

There are other ways also in which LIFT can

* Thus far, the board, with the exception of the loan to Bangor (Northampton County) in the Northeastern mining region, has restricted itself to standard labor market areas and counties in determining critical areas. In the case of the Bangor loan, it designated an economic region composed of all or parts of 11 counties as being critical. As there is nothing to prevent more regional designations in the future, that portion of the State in which P.I.D.A. loans can be made is really more extensive than might first appear to be the case.
get financial help from P.I.D.A. If LIFT decided to put up a shell building on speculation, it would have to bear the entire cost of construction alone. But once it secured a tenant and a first-mortgage commitment, it could get second-mortgage financing from P.I.D.A., and draw down a portion of its funds for investment elsewhere. LIFT might also apply to P.I.D.A. for a second-mortgage loan on an old, occupied manufacturing establishment in which it has an investment. The P.I.D.A. loan would “release” community funds which would then, by law, have to be invested in a new project. The funds invested in the new project could become all or part of the community’s 20 per cent requirement for a P.I.D.A. loan on the new building. LIFT could in this way avoid having to start a new drive for funds in order to finance a new project.

This example shows how heavily P.I.D.A. relies on local initiative; local organizations remain the prime movers of industrial development. Corporations like LIFT still select the prospects, purchase the sites, and construct the buildings. To be sure, the Pennsylvania Department of Commerce helps out by putting communities in touch with prospects; but P.I.D.A. loans are made to local organizations and not to private firms. P.I.D.A.’s chief contribution is that it stretches the community’s dollar further. As one local development man put it, “With P.I.D.A., every dollar we raise, means $5.00 for investment.”

The efficiency of P.I.D.A. loan dollars for each loan can be determined by calculating the employment and payroll dollars per P.I.D.A. dollar. When loans (disbursed and awaiting disbursement) were segregated according to the previous locations of firms, there were some interesting results. The loans that created the largest payrolls and greatest amount of employment were those used for branches and the expansion of facilities of firms with main offices or plants in other states. As shown in the chart, it was in the expansion of these out-of-state establishments that P.I.D.A. dollars achieved, by far, their best results.

**P.I.D.A. PAY-OFF**

Loans for the expansion of facilities and the establishment of branches of firms incorporated in other states have yielded the highest returns in payrolls and jobs.

<table>
<thead>
<tr>
<th>Number of Employees per $10,000 P.I.D.A. loan</th>
<th>Dollars of Payroll per Dollar of P.I.D.A. loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>30</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Pennsylvania Industrial Development Authority.

Three loan applications are now pending. If these are approved, P.I.D.A. will have committed over $6,800,000 of the $8 million appropriated. This would leave only a little over a million dollars in uncommitted funds.

P.I.D.A.’s fund was meant to be a revolving fund. The number of revolutions per, let’s say, 10-year period will depend on (1) how promptly P.I.D.A. lends its money, and (2) how quickly it gets paid back. P.I.D.A. will probably have loaned its entire appropriation of $8 million by the end of 1958. Its pay-backs in prinicpal and interest returns have been, to date, only $130,000. The money is going out but not returning fast enough for the fund to revolve perceptibly.
While it would no doubt be desirable for the fund to revolve more quickly, it may also seem desirable in critical economic areas to make long-term loans and defer amortization payments until first-mortgage loans are paid. P.I.D.A. money does get “tied up,” but, proponents argue, in a good cause. As a practical matter, this means that P.I.D.A. will require more money from the state legislature by the end of this year.

Other development activities in Pennsylvania

Pennsylvania has other means of attracting industry and developing its economy. Promotional and advertising activities are prominent. Under the Pennsylvania Industrial Development Assistance Act, passed about the same time as the Pennsylvania Industrial Development Authority Act, $1 million in state funds were appropriated for distribution to local development agencies for promotional and advertising purposes. This money is being used for matching grants to local agencies set up on a county basis.

Private groups in Pennsylvania, especially utilities and railroads, are also active in promoting industrial development.

While there is no public authority in Pennsylvania designed solely to stimulate the growth of industrial parks, as there is in New Hampshire, the suburbias of the manufacturing world have been well accepted in Pennsylvania; and, in some areas, because of the mountainous terrain, they may be quite necessary. The Valmont Industrial Park in Hazleton, the Crestview Industrial Park in Wilkes-Barre, and the Fort Washington Industrial Park near Philadelphia are, among others, all going concerns.

Financing development in other states

Individuals in other states have also recognized the need, where it exists, for industrial development. The New England states, in particular, have suffered like Pennsylvania from changing economic conditions. In Maine, in 1949, it was found that certain firms were considering moving into the state but were unable to because they could not get the capital needed. Maine bankers felt that they could not make the required loans individually so, with Yankee ingenuity, they set up a new financial institution that could. Their new institution, called a private development credit corporation, was to operate at the state level and make non-bankable loans to small, private concerns. It was to obtain most of its funds by borrowing from its members—banks and insurance companies. The idea caught on and spread to other New England states. Today, New York and North Carolina also have active development credit corporations. In the Third District, New Jersey recently passed enabling legislation.

State-wide action to promote and finance industrial development is chiefly a response to a persistent unemployment problem. But even in states where no such problem exists, the establishment of an authority or development credit corporation frequently may appear necessary. The reason for this was concisely expressed by one state official several months ago. “Our position in the top ranks of economic leadership,” he declared, “is being threatened by states who are trying to steal our industry.”

The Interstate Stampede for Industry (See Business Review, December 1956) has no doubt been accelerated by these new state-wide institutions. The establishment of an authority or development credit corporation may, in some cases, represent not only an offensive drive against economic deterioration but also a defensive gambit against the promotional activities of other states.

The accompanying map of the United States
WHAT SOME STATES ARE DOING TO PROMOTE INDUSTRIAL DEVELOPMENT

shows the present extent of development credit corporation and authority legislation.

Of corporations and the Authority: a comparison

Some people think of industrial development authorities and development credit corporations as being alternative methods of financing development; others think of them as supplementary. In Pennsylvania this issue is important. Back in 1955, when the legislative halls in Harrisburg began buzzing with ideas on how to encourage industrial development, a private development credit corporation was one of the alternative proposals introduced. It was backed, in principle, by the Pennsylvania Chamber of Commerce. But it never got very far because it failed to stir the necessary enthusiasm around the state, and the P.I.D.A. plan was adopted.

There is still talk; and some believe there is more interest today in a private development
DEVELOPMENT CREDIT CORPORATION LAWS
IN NEW JERSEY AND NEW ENGLAND

The New Jersey Business Development Corporation Act, signed into law in January 1958, enables the organization of any number of private development credit corporations in New Jersey. These corporations may operate throughout the state or be restricted to one or more counties.

The legislation in New Jersey permits the establishment of the type of development corporations active in five New England states, New York, and North Carolina. Except for the fact that New Jersey may eventually have more than one such corporation, there are very few differences. In each case the affairs of the corporations are managed by boards of directors, the majority of whom are chosen by member financial institutions, and the remainder by stockholders (businesses and interested individuals). Loan funds are obtained primarily from member financial institutions which pledge to lend a certain percentage, usually 2 per cent or 2 1/2 per cent, of their capital and surplus. In New Jersey, members are required to pledge to lend to the corporation an amount equal to 2 per cent of their capital and surplus, or $100,000, whichever is smaller. Public utilities as well as banks, insurance companies, trust companies, and surety companies can become members. As in the case of several New England states, the development credit corporations in New Jersey will have a legal limit on the debt they can accumulate. The debt for each corporation is limited to $10 million, or $10 for every dollar in capital stock sold, whichever is greater. Each corporation in New Jersey must commence business with a capital stock of not less than $100,000.

The development credit corporations in New England and those contemplated in New Jersey are multi-purpose organizations. They normally engage in borrowing and lending, but they can do many other things also. For example, the New Jersey statute states that every corporation organized will have the power to "buy, sell, mortgage, rent, lease, and otherwise deal in improved and unimproved real property for the purpose of industrial, mercantile, agricultural, recreational, mining, or commercial development; and to erect, maintain, alter, hold, sell, or lease industrial, commercial or other plants, buildings, or establishments." Each corporation may "borrow money and otherwise incur indebtedness . . .; evidence its indebtedness by any form of obligation it sees fit, . . ." In the realm of financing, there is little development credit corporations cannot do.

credit corporation for Pennsylvania. Those Pennsylvanians who still support the establishment of a development corporation seem to agree that P.I.D.A. has contributed to economic development. But they are quick to point out that the type of organization they favor would also have value. They argue that a development credit corporation could supplement P.I.D.A. by providing a source of credit in areas not now critical and therefore ineligible for P.I.D.A. assistance. As development efforts succeed and the number of critical areas diminishes, they foresee the gradual curtailment of P.I.D.A. and the expansion of development credit corporation lending. And many welcome this because they feel that a development credit corporation is more in the tradition of free enterprise than P.I.D.A. since its funds are obtained from private rather than from public sources.

We found a comparison of P.I.D.A. and the active development credit corporations of New England helpful in showing how these institutions relate to one another.

The purposes of P.I.D.A. and the development credit corporations of New England are similar but not identical. There is more emphasis on the problems of unemployment in Pennsylvania, and P.I.D.A. is restricted to operating in "critical economic areas." (Continued on Page 14)
PHILADELPHIA BUSINESS TRENDS SINCE MID-1957

So far during the current business recession, Philadelphia appears to have fared no worse and in some respects better than business generally throughout the United States. But this gallery of local business trends against the national background may present the Philadelphia scene more favorably than it deserves. While local employment declined relatively less during the recession, local employment had also risen less during the earlier upsurge.

Since the July 1957 peak in general business activity, United States employment declined 5 per cent. Employment in Philadelphia declined 3 per cent. Manufacturing employment in the Philadelphia area declined, percentage-wise, somewhat less than that of the United States.

Cataloging the Philadelphia area employment in non-manufacturing activities declined less than 1 per cent since July 1957 in contrast with a national decline of 3 per cent.

Unemployment, expressed as a percentage of the labor force, has been consistently higher in Philadelphia than in the country at large.

Manufacturing employment in durables, the decline in employment was also more moderate in Philadelphia than nationally.

In the February 1957 Business Review article entitled "Philadelphia in the Fifties", it was pointed out that unemployment in the Philadelphia area had been a consistently larger part of the labor force than nationally. Among the reasons cited were the following: (1) Philadelphia began the 1950's with a large proportion of the labor force unemployed; (2) over much of the period, the labor force in Philadelphia grew faster than that of the rest of the country; and (3) compared with the rest of the country, Philadelphia had a higher-than-average proportion of its population in the labor force.

Construction contract awards reflected more recession locally than nationally.

But 1958 outlays for new manufacturing plants and equipment in the Philadelphia area are expected to show a smaller percentage decline than outlays by United States manufacturers.

Department store sales in the Philadelphia area have been consistently below the national index.

Locally, consumer spending, as measured by new car registrations, has been in line with the national pattern.

Philadelphia bank debits also parallel the national trend.

Department store sales indices are seasonally adjusted.

Local registrations of new cars represent five Pennsylvania counties.

Construction contract awards exclude public works and utilities.

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A COMPARISON OF P.I.D.A. AND NEW ENGLAND DEVELOPMENT CORPORATIONS

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Pennsylvania Industrial Development Authority</th>
<th>New England Development Credit Corporations</th>
</tr>
</thead>
</table>

| Type of Loans | Manufacturing plant construction and associated real-estate purchases and improvement. | Working capital, plant construction, purchase, and improvement of real estate, purchase of machinery and equipment, etc. |

| Major Restrictions | 1. Loans may only be made in "critical economic areas." | Loans must not be available through normal banking channels. |
|                   | 2. Loans for manufacturing only. | |
|                   | 3. Loans may not be made to enable relocation within Commonwealth. | |

| Average Size of Loan | $117,000 | $74,000 |
| Normal Term of Loan  | 12-18 years | 6-10 years |
| Rate of Interest     | 2% up | 5% up |
| Size of Firm Financed by Loan | Medium, large firms. | Small firms. |
| Previous Location of Firms | Mostly out of state. | Mostly in state. Some new firms. |

P.I.D.A. may make loans only for the construction of manufacturing facilities. The New England corporations have made most of their loans to manufacturers but are not restricted from making loans to others. A large proportion of development credit corporation loans has gone for working capital—42 per cent of all loans in Massachusetts.

The average size of loans in Pennsylvania has been substantially larger, the rate of interest substantially lower, and the terms of the loans substantially longer than has been the case in New England. Loans in Pennsylvania have helped finance larger firms, on average, than loans in New England. About 39 per cent of the firms financed by P.I.D.A. (accounting for roughly 24 per cent of the dollar amount loaned) have been firms already established in Pennsylvania. In New England, about 84 per cent of development credit corporation loans have gone to firms previously established in the state in which the loans were made.

These differences require an explanation. In Pennsylvania, larger loans, at lower interest rates,
for longer terms, to help finance larger firms are, perhaps, a reflection of the more urgent problems with which P.I.D.A. is exclusively concerned.

The "development concept" of P.I.D.A. is that the quickest and surest relief for critical areas will come by inducing out-of-state firms to relocate or set up branches in Pennsylvania. Unlike the New England development corporations which make non-bankable loans, the Pennsylvania Authority is not interested in financing small and risky enterprises. As one Pennsylvania official put it, "We are interested in attracting the highest quality firm possible."

The development credit corporations of New England have a somewhat different concept of development. They operate on the principle that there are many small firms that are not able, because of their size, or in some cases their relatively brief existence, to obtain adequate financing from commercial banks and insurance companies. It is believed, nevertheless, that many of these firms are good credit risks and can make significant contributions to economic development. Thus, proponents say, development credit corporations serve the cause of industrial development and, at the same time, they provide a new way to finance small business.

**Some industrial development problems**

Whatever the approach to industrial development, there are problems; and after years of effort, these problems may still appear tenacious and unyielding.

An economist would be concerned with a certain kind of problem. If he found an element of subsidy in the interest rates charged by development authorities and corporations, he would be disposed to warn these agencies of the inefficiencies that could result. The use of public or private funds to subsidize industrial expansion and relocation, he would contend, may nullify the more desirable patterns of location established by the free market. As more states are forced to enter the competition for industry, they would naturally bid up the subsidies. This would permit inefficient firms to operate and expand, and make it increasingly expensive for states to develop industrially.

A promoter of industrial development might basically agree with this analysis and yet not concede that subsidies should never be used. He might point out that there are many other factors which also interfere with the free-market pattern of location. Even if this were not the case, the free market, which at times is prone to neglect long-run considerations, may not yield the best possible location for industry. If further pressed, he would probably argue that when economic conditions deteriorate, something must be done. In the United States we will not permit people to starve, nor will we force them to move. There are costs involved in guaranteeing economic security and freedom to this degree. When these costs are considered, the type of subsidy involved in industrial development programs may not appear to be a needless expenditure; it may be preferable to giving doles to unemployed workers and allowing labor to go to waste. It may also be preferable to giving outright gifts to manufacturing concerns; for, if the manufacturer goes broke or decides to move elsewhere, the community is left with nothing.

Individual states and their development agencies must deal with other kinds of problems also. Development authorities and corporations have to consider, to some extent, the economic base of the communities they are helping to redevelop. For example, a firm employing a thousand workers may not necessarily be desirable at all times and in all places. If it employs mostly women, it would not be suitable for communities in the
anthracite region of Pennsylvania, which are already overloaded with industries that rely on female labor. A firm of this size might not be suitable for a small town that would grow to depend on it exclusively. In Pennsylvania, communities and local development corporations, as the initiators of industrial development projects, assume the primary responsibility for selecting the proper "industry mix."

In general, the less critical a situation, the more careful a development authority or corporation can afford to be in picking and choosing to diversify a community's economy. In a highly critical situation, little consideration is given this problem; and when a community has reached an economic crisis, it doesn't really matter at all. "You don't worry about diversification," reflected one Pennsylvania development man, "when you start from zero."

Most people concerned with the problems of industrial development agree that financing manufacturing is the best way to promote development. Manufacturers provide more jobs and larger payrolls than firms in wholesale or retail distribution or the service trades. But there are some problems connected with the expansion of manufacturing that are not always clearly recognized.

Developing the economy of a state or a community by attracting new manufacturers and encouraging others to expand does not result in the simple addition of employment opportunities to a fixed stock of jobs. While new jobs in manufacturing are being created, old jobs are continually disappearing. Jobs disappear not only because some firms decide to relocate in other areas, and other firms in declining industries are forced to cut back production; there is another less apparent but basic reason. Many jobs in Pennsylvania would have vanished had textile firms never moved and coal mines never laid off workers.

This disappearance act is not a simple parlor trick. It is the result of some truly powerful industrial magic—new formulas and more efficient machines for making goods and providing services. As technology improves, fewer workers are necessary to produce the same amount of product. For a community that is attempting to develop industrially—to move jobs to people—technological progress can be a two-edged sword. Increasing the level of employment opportunities by helping manufacturing expand can be likened to pouring water into a leaking bucket. In order for the water

**TEN YEARS OF CHANGE: 1947-56**

The use of more efficient men and machines caused manufacturing production to increase faster than employment. Manufacturing employment rose by almost as great a percentage as population in the United States; but, in Pennsylvania, the percentage increase in jobs did not come close to matching the percentage increase in population.

![Graph showing the percentage increase in manufacturing, population, and all manufacturing employment in Pennsylvania and the United States from 1947 to 1956.](http://fraser.stlouisfed.org/)

Source: United States Bureau of Census, Pennsylvania Department of Internal Affairs.
level to rise, water must flow in faster than it is flowing out.

Pennsylvania expanded considerably as a manufacturing state in the ten years between 1947 and 1956. Approximately a 31 per cent increase in physical output, however, was accomplished with a 2.6 per cent decrease in the number of production workers, and only a 1.9 per cent increase in the total number of workers in manufacturing. Population in Pennsylvania during this period increased by almost 8 per cent. The United States, on the whole, had a more comfortable record. Manufacturing output expanded at a faster rate in the United States than it did in Pennsylvania. Manufacturing employment in the United States over this 10-year period, increased almost as fast as its population.

While experts believe that manufacturing represents the best hope for industrial development, it still presents an "Alice-through-the-looking-glass" case in which we have to run as fast as we can just to stay in the same place—and we must run a little faster than we think possible to make significant improvements in the economic situation. Under these circumstances, development authorities and corporations are obliged to use their limited funds, to the extent the pressure of circumstances permit, to aid firms in industries that are expanding job opportunities rapidly.

* * *

The need for economic development in many areas of Pennsylvania and other states is pressing. The problems are formidable. Ingenious methods have been developed at local levels to promote industrial expansion. But the difficulties have not been entirely responsive to treatment. Fresh methods and new institutions have been developed at the state level. The Pennsylvania Industrial Development Authority and state-wide private development credit corporations are not panaceas; they are new ventures in cooperative action to improve economic health, and among the most recent forays in the ancient struggle against economic distress.
This is the season when vacation business again becomes big business at the seashore, in the mountains, and all along the highways leading to the resorts. We have talked about the season's prospects with local bankers and businessmen in popular vacation spots within the Philadelphia Federal Reserve District. Our resort people say they are expecting another ten weeks or so of excellent business this year.

As is frequently the case, these early-season predictions are made with certain qualifications. Early June weather, for example, was a bit on the disappointing side. “Old Man Weather” always injects a big “if” into a whole season’s prospects. Any resort man will tell you that weather, especially week-end weather, can almost make—but will sometimes break—an entire season’s business. This year there is an additional factor to be reckoned with—the impact of recession on vacation budgets.

Spending patterns at this early date remain obscure; they still are little more than a matter for conjecture. Nevertheless, it is a healthy sign that businessmen in all our resorts are counting on vacationers becoming good spenders again this year. Landlords and merchants and those who operate restaurants and amusements seem to have gone all out to promote a 1958 resort season measuring up to the exceptionally good one experienced last year.

**Advance reservations a hopeful sign**

Inquiries from vacationers seem to have come in more slowly this year. Perhaps it was a too-cool, too-rainy, early spring that delayed initial planning. Or it could have been a case of “recession jitters” that took a while to wear off. In any event, the pace quickened as Memorial Day approached. That three-day week end in itself generated considerable optimism in all our resort areas. In every respect it appeared to equal the best of the excellent week ends that ushered in a most successful 1957 season.

At resorts along the Delaware and New Jersey coasts and in the mountains of Pennsylvania, bookings for July, and in some cases early August, have shown encouraging increases in recent weeks. In the Pocono Mountain area, summer camps for children are said to have reached their quotas in short order. Cottage rentals, especially important in some of our seashore resorts, have improved considerably. Earlier, local real-estate
people had begun to wonder whether a slow demand for cottages might mean shorter vacations this year. By the time the schools closed, more and more landlords were reporting advance reservations comparable to those made in pre-season 1957—a period that included a June heat wave of noteworthy proportions.

**Rental rates to remain firm**
A few hotels and some of the older motels will offer added attractions this year. Frequently, these include a swimming pool or other recreational facilities to draw more guests. In such instances, peak-season rates have been raised on the strength of the new services provided. Most landlords expect to maintain 1957 rate schedules through the current season. Some cottages have been built since last year, but, with construction far short of boom levels, it is unlikely that 1958 rentals will be subjected to downward pressure. Usually, rate competition for all types of resort accommodations develops only in off-season periods like the weeks preceding Memorial Day and those following Labor Day.

**Restaurant business picking up**
Early-season patronage in most restaurants is said to measure up to expectations. To be sure, the meals may cost a little more this year, because of higher food prices. But so far, there is no evidence that vacationers are choosing the less expensive items on menus. Many restaurants operate only part of their facilities prior to Independence Day, so reports of patrons lining up for tables on June week ends are not too surprising. From now on, however, spending patterns in this area of the resort business and in retail shops will be watched closely for clues to the state of vacation budgets. If the restaurant lines persist and merchants’ stores become crowded, this year’s crop of vacationers could be the same liberal spenders they were last season.

**A sharp “weather eye” focuses on week ends**
The relative importance of week-end visitors in the economy of our resort areas seems to increase with each passing year. And 1958 is not likely to prove an exception. We can thank the new highways and bridges and strategically located motels that encourage people to come greater distances for only a one- or two-day stay. Almost any week end from June to September brings a horde of short-staying guests who severely tax the facilities of our major summer resorts. We say “almost” because bad weather either day usually spells business lost that cannot be regained. Even a few such losses can color a whole season’s picture because, traditionally, week-end visitors are very good spenders.

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**FOURTH-OF-JULY WEEK END**
Independence Day week end measured up to high expectations in our major shore and mountain resorts. This year’s long holiday brought a flood of visitors that seemed to swamp facilities in many places. And, more important, these short-staying guests turned out to be good spenders. Some resort people think this week end was among the best experienced in a long time. Cautious optimism expressed earlier has been brightened perceptibly. The month of July appears "made" from the standpoint of lodging reservations. No one cares to predict what August will bring, because so much depends on the frequency and timing of coastal storms developing in late summer. August could be an especially important month in this year’s short vacation season characterized by late school closings and the earliest possible date for Labor Day.
This year's excellent Memorial Day week end started the ball rolling in most of our resort areas. With one notable exception, June week ends were made for traveling. And all reports seem to indicate that a lot of people traveled. Some resort people say that traffic might have been heavier had it not been too cool for an early-season swim in a pool or the ocean. Those who feel that seasonal improvement in week-end business has not quite come up to high standards set last year seem disposed to blame the coldest June weather in half a century, rather than a recession-inspired reduction in vacation budgets.

As we move into July, our resort people will find encouragement in the Weather Bureau's long-range forecast for that month. It calls for seasonably high temperatures with below-normal rainfall. That could be just what the doctor ordered to spark another excellent season of resort business this year.
THIRD FEDERAL RESERVE DISTRICT

PENNSYLVANIA

NEW JERSEY

DELAWARE
## FOR THE RECORD...

### SUMMARY

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<td></td>
<td>Per cent change</td>
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*Adjusted for seasonal variation. ⊕20 Cities ⊕Philadelphia

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### LOCAL CHANGES

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*Not restricted to corporate limits of cities but covers areas of one or more counties.