Bank Salaries and Management Succession Of National Parks and People Capital Spending and The Neighborhoods of Philadelphia
According to tradition, banking is a profession in which nonmonetary rewards are great, but salaries are modest. The stereotype of the average banker is a man held in high regard by the community and widely trusted because of his sound judgment and unimpeachable character. Dressed with conservative good taste, perhaps carrying a few extra pounds for stabilization, going about his business in a dignified manner, he is supposed to have little apparent concern for his salary level.

This caricature of the community banker also typifies the traditional view of banking itself. Banking is thought to be a rather staid profession, always wary of innovation. But things are changing. Commercial banks are reaching for a new image. They have taken on new functions, pressed innovation, and developed sophisticated marketing techniques. In short, banking has become one of the "now" institutions. The use of such devices as psychedelia in advertising campaigns is indicative of the spirit of change sweeping banking. Today, the word "banking" connotes liabilities management, one-bank holding companies, factoring, leasing, credit cards, electronic data processing services, and a host of technologically oriented activities. The banking industry today emanates a new spirit, and while this spirit is more apparent in large banks, even small banks are beginning to stir.

With the nature of banking changing, is the banker's view of his own salary changing too? If so, is this change making it harder for banks to attract and keep competent managers? This article looks at the compensation and succession of officers of commercial banks in the Third Federal Reserve District and discusses some implications for the future.

THE HIGH COST OF LOW SALARIES?

Nearly one out of five commercial banks in the
### Table 1

**Banks of All Sizes Report Management Succession Problems**

<table>
<thead>
<tr>
<th>Deposit Size ($ in millions)</th>
<th>Number of Respondents</th>
<th>Per Cent of Banks Reporting Succession Problems</th>
<th>Time Horizon within which Problems are Expected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>Immediately</strong></td>
<td><strong>Within 1-3 Years</strong></td>
</tr>
<tr>
<td><strong>Under $5</strong></td>
<td>71</td>
<td>22%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>$5-9.9</strong></td>
<td>98</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>$10-24.9</strong></td>
<td>125</td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>$25-100</strong></td>
<td>75</td>
<td>21%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Over $100</strong></td>
<td>28</td>
<td>14%</td>
<td>—</td>
</tr>
<tr>
<td><strong>All Banks</strong></td>
<td>397</td>
<td>19%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Third District reports that a management succession problem exists currently or is anticipated within the next five years, as indicated in Table 1. One in five District banks also reports that it cannot hire managers at current wage levels. It would appear superficially that low salaries provide most of the answer to the question of why some banks are plagued by management succession problems, while others are not. But the answer is more complex. Average salaries paid to the top officers of banks with succession problems are essentially the same as those paid to the top officers of banks of similar size which do not have succession problems, as shown in Table 2. What can be concluded, then, about the relationship between salary levels and the ability to attract management talent? To find out, we must examine what determines the salaries which bankers currently receive and what characteristics besides salary can be isolated which distinguish banks which have succession problems from those which do not.

### Table 2

**Average Salaries of Top Three Officers Relate to Bank Size, Not to Problems**

<table>
<thead>
<tr>
<th>Deposit Size ($ in millions)</th>
<th>Banks with Management Succession Problems</th>
<th>Banks without Management Succession Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Under $5</strong></td>
<td>$ 7,618</td>
<td>$ 7,544</td>
</tr>
<tr>
<td><strong>$5-9.9</strong></td>
<td>8,984</td>
<td>9,430</td>
</tr>
<tr>
<td><strong>$10-24.9</strong></td>
<td>11,764</td>
<td>11,709</td>
</tr>
<tr>
<td><strong>$25-100</strong></td>
<td>17,501</td>
<td>17,726</td>
</tr>
<tr>
<td><strong>Over $100</strong></td>
<td>37,400</td>
<td>40,048</td>
</tr>
</tbody>
</table>

1 The following discussion is based on data obtained from a survey taken in 1969 by the staff of this Bank. Questionnaires were sent to all banks, members and nonmembers, in the Third District. Completed questionnaires were returned by approximately 400 banks—a response rate of about 80 per cent.
sence of branches. A number of other factors
often thought to be important, such as educa-
tion, bank location, officers’ age and years of
service, officers’ sex, and membership in the
Federal Reserve System apparently have no sig-
nificant influence on relative salary levels
among banks in the Third District.

**Size of Bank and Officer Rank.** It comes as
no surprise that the larger a bank, the higher
the pay an officer is likely to receive. The rea-
sons seem equally obvious. A larger staff is
required to manage larger banks. So at the
highest echelons, officers are responsible for the
work of a larger number of bank employees.
Similarly, in large banks, each officer is re-
ponsible for larger amounts of gross income.
(See Table 3.) On both counts, the decisions
of top officers will have a greater dollar im-
portance at bigger banks, and they can, there-
fore, expect to receive higher pay.

For similar reasons, we were not surprised to
find that the rank held by bank officers is
important in accounting for variations in salary
levels. Higher rank implies greater respon-
sibility, and higher ranking officers make decisions
that have a greater dollar impact on earnings.

**Branching.** Banks with branches typically pay
their top officers more than banks of the same
size that do not have branches. One possible
reason for this difference is that greater re-
ponsibility may be associated with administ-
ering a network of branches than with running
a single bank, and commensurately higher compen-
sation is, therefore, found in banks having
branches. Another possibility is that branch
banks are more likely to be banks “on the
move” and, therefore, are more likely to pay a
premium to attract aggressive, energetic man-
gers.

**Sex, Education, and Other Factors.** After
taking account of bank size, officer rank, and
branching, no other characteristics of either
banks or the officers themselves were systema-
tically related to differences in officers’ salaries.
College graduates or those who completed AIB
or Stonier Graduate School of Banking courses
do not earn more, on the average, than those
who have less formal training. Nor do men
make more than women. Nonmember bankers
do not get paid more than their member coun-
terparts. And officers with long years of experi-
ence do not earn more, on the average, than
those who are new to their jobs.

Care should be taken, however, in interpret-
ing these results. In a relatively competitive
market, one would logically expect officers with
comparable jobs and responsibilities to get paid

<table>
<thead>
<tr>
<th>Deposit Size ($ in millions)</th>
<th>Number of Employees to Number of Officers</th>
<th>Gross Income to Number of Officers ($ in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $5</td>
<td>1.92</td>
<td>73.7</td>
</tr>
<tr>
<td>$ 5-9.9</td>
<td>2.56</td>
<td>109.5</td>
</tr>
<tr>
<td>$ 10-24.9</td>
<td>3.46</td>
<td>138.8</td>
</tr>
<tr>
<td>$ 25-100</td>
<td>4.42</td>
<td>169.8</td>
</tr>
<tr>
<td>Over $100</td>
<td>5.98</td>
<td>195.3</td>
</tr>
</tbody>
</table>
TABLE 4
Banks with Succession Problems Differ from Banks without Problems

<table>
<thead>
<tr>
<th>Per cent of banks with incentive plans</th>
<th>Banks with Problems</th>
<th>Banks without Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per cent of officers with college, AIB, or other advanced work</td>
<td>71</td>
<td>77</td>
</tr>
<tr>
<td>Average years in service of top officer</td>
<td>52</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td>27</td>
<td>20</td>
</tr>
</tbody>
</table>

As shown in Table 4, banks with management succession problems are likely to have officers who have (1) fewer profit-sharing or other incentive plans; (2) less formal education; and (3) more years on the job than do banks which are not now worried about having successor management.

**The Carrot.** Most banks provide profit sharing, bonuses, or other monetary incentives to management. Most incentive plans add five to ten per cent to base salaries, but a sizable number of banks pay bonuses which exceed ten per cent. Two groups of banks—those with less than $5 million and those with $25 to $100 million in deposits—which have succession problems also have significantly fewer incentive plans than other banks in the District. Lack of incentive plans may be one reason why these banks, which account for 42 per cent of all banks with succession problems, have trouble recruiting top management.

**Education and Service.** Banks which are built around an officer cadre with more formal education are likely to have fewer management succession problems. This difference in staffing is especially true for banks whose deposits range between $25 and $100 million.

In addition, banks whose top management team has been around a long time are more likely to have succession problems than banks about the same salary. An officer is paid for what he does—for his value to the firm—not for attending college or growing old. Not that education and other factors are unimportant. While people in the top jobs will get top pay no matter how diverse their backgrounds, education or experience may be crucial to land the top job in the first place. Similarly, while women officers may earn as much as their male counterparts, fewer women have made it into the executive suite.²

Bank size, officer rank, and all other variables we have mentioned so far account for only about half of the variation in officers' salaries among Third District banks. Consequently, the results should be interpreted cautiously. Some factors defy quantitative analysis, and we were not able to isolate many variables unique to individual banks which are important determinants of what officers earn.

**BANKS WITH PROBLEMS**

Banks with management succession problems pay their top officers as much, on the average, as banks without such problems (Table 2). Are problem banks just unlucky, or can some variables be singled out which are present in banks with problems and absent in banks without succession problems?

where the managers are “less experienced.” For example, in banks with management succession problems, the top officers have been with their present bank 20 per cent longer and spent almost 40 per cent more time in their present jobs than have the top officers in banks without succession problems. A slower rate of promotion and more time with the bank were also found for the men in number two and number three slots in banks with succession problems. Typically, these officers had 40 per cent more time in service and almost 20 per cent more time in their present positions.

At least two reasons can explain why banks with succession problems have more tenured officers. First, the length of service of present officers means these banks are unable or unwilling to move employees up into higher positions rapidly. Talented employees may not be willing to wait so long for their turn at the wheel. As they seek advancement elsewhere, the banks from which they flee are left without adequate successor management. And it is unlikely that these banks can attract people from outside. Capable managers want to go where chances for rapid promotion to the top jobs are good.

Second, banks with fewer tenured officers may be less likely to have management succession problems because their “time has not come.” They may not be prepared to meet successor management problems any better than their neighbors are. They may simply have younger officers who are further from retirement, and for these banks the problem of succession seems remote. This idea is supported by the fact that banks with succession problems have almost 60 per cent more officers who are 60 years or older than do other banks. Similarly, banks without problems have almost 70 per cent more officers who are under 49 years of age than do banks troubled by management succession. Consequently, many District bankers who report that they do not have a succession problem may in fact have a problem—it is just further down the road for them than for their less fortunate colleagues.

WHAT HAPPENS NEXT?

This article presents a snapshot of District banks at one point in time. While a longer view would provide additional detail, a snapshot provides some insight into the nature of the succession problems which face many banks now or which must be faced in the years to come.

Each bank is unique—it has its own special environment, its own advantages and problems. Consequently, there are no pat solutions to the problem of management succession. Each bank must analyze its own situation and act accordingly. A couple of general guidelines flow from this overview, however.

First, advanced age of top officers may be a symptom as well as a cause of management succession problems. For banks to obtain and retain talented managers for the future, they must provide young “comers” with challenging work and upward salary, job visibility, and movement. This may mean that some of today’s senior managers will have to delegate more responsibility or perhaps even step down sooner than they would like.

Second, many of today’s top officers received their training on the job rather than in the classroom. But many of tomorrow’s top managers are now in school, and will not quit until they have gone to college or a professional school or both. They realize formal training is necessary to keep from becoming outmoded in tomorrow’s job market. When they do get out of school, they will have numerous employment
opportunities. If banks are to snag some of this talent, they are going to have to pay higher salaries than has been their custom.

Of course, banks can do a host of other things to obtain successor management. They can encourage present employees with promise to seek additional college, AIB, or other formal training. They can be more aggressive in their search for talent and can initiate and follow longer run plans for executive recruitment and development. And so the list goes. Clearly, the problem will not solve itself—if anything, it will become more acute in the years ahead for unwary management. Current management can only solve the problem if it invests time and money. Bankers in many small banks argue that they cannot afford to pay higher salaries to hire new managers or to train and retain present ones. But, if these banks are to survive as independent institutions, they may not be able to afford not to pay higher salaries, training, and other expenses. Only in that way will they be able to have the executive leadership necessary to guide their banks through the challenges ahead.
The findings reported in this article relating to the determinants of bank salaries are based on a series of multiple regressions. Although several variations of the regressions were run, the results were essentially the same in each case. A sample regression is shown below.

The discussion in the text treats all education variables together. However, the statistical analysis does not employ "education" as a continuous variable. Rather, four dummy variables were used.

### Regression Coefficients and Multiple R² for Independent Variables

**Dependent Variable: Officers' Salaries**

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Regression Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Location (SMSA or rural)</td>
<td>1383.3286</td>
</tr>
<tr>
<td>2. Unit or branch bank</td>
<td>3762.8567**</td>
</tr>
<tr>
<td>3. Age of officer</td>
<td>37.8123</td>
</tr>
<tr>
<td>4. High School graduate</td>
<td>2980.2544</td>
</tr>
<tr>
<td>5. AIB courses</td>
<td>1660.5386</td>
</tr>
<tr>
<td>6. College attended</td>
<td>236.0307</td>
</tr>
<tr>
<td>7. College graduate</td>
<td>1152.4927</td>
</tr>
<tr>
<td>8. Graduate or banking school degree</td>
<td>1964.6091</td>
</tr>
<tr>
<td>9. Sex of officer</td>
<td>46.7211</td>
</tr>
<tr>
<td>10. Years of service</td>
<td>-18.3228</td>
</tr>
<tr>
<td>11. Rank—first officer</td>
<td>4182.0273**</td>
</tr>
<tr>
<td>12. Rank—second officer</td>
<td>2960.2178</td>
</tr>
<tr>
<td>13. Deposit size*</td>
<td>6233.6875**</td>
</tr>
<tr>
<td>14. Member Federal Reserve System</td>
<td>650.1941</td>
</tr>
<tr>
<td>15. Management succession problem</td>
<td>-488.1426</td>
</tr>
</tbody>
</table>

Multiple R² = .567

*Significant at .05 level or better

F value (15,354) = 30.8280

* Banks were grouped according to deposit size as: 1—Less than $5 million; 2—$5 million to $9.9 million; 3—$10 million to $24.9 million; 4—$25 million to $100 million; and 5—over $100 million.
Now 98 years old, the National Park Service is facing new pressures as it attempts to preserve some of the nation's natural beauty and yet cater to a mushrooming number of visitors. An observer and enjoyer of parks for many years, the author of this article records his impressions.

Of National Parks and People
by Evan B. Alderfer*

From the Fed's front door, it is only a five-minute walk down Chestnut Street to Independence National Historical Park. It has trees, benches, squirrels, and pigeons, but what visitors from afar come to see is the building and the bell—the body and soul of American Independence.

To most people, however, a park suggests a place for merriment and diversion. That is precisely what Congress had in mind in 1872 when it established Yellowstone as a “pleasuring ground for the benefit and enjoyment of the people.” Yellowstone, the country’s first national park, is also the world’s first. It has many attractions: geysers and hot springs by the thousand, including “Old Faithful,” mud pots simmering with what looks like ready-to-serve oatmeal in different pastel shades, canyons, waterfalls, and an abundance of wildlife. Over 2 million acres in size, Yellowstone is one of our largest parks.

The popularity of Yellowstone encouraged Congress to create other national parks, and before the turn of the century, Mount Ranier in Washington and Sequoia and Yosemite in California were added. Most of the early parks were established around natural wonders of the West—gigantic redwoods, majestic mountains, glaciers, volcanoes, caves, and a petrified forest. Now there are 33 national parks which afford such outdoor activities as camping, animal and bird watching, fishing, hiking, horseback riding, picnicking, and simple sightseeing for the sedentary.

In 1906, Congress passed the Antiquities Act which empowered Presidents to set aside out of the public domain lands that have special

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archeological, historic or scientific interest. Examples are: Grand Canyon National Monument, an open-sky textbook of geology; Death Valley National Monument, a desert-dry beauty spot; Chaco Canyon National Monument, Pueblo Indian ruins without equal in the United States. Today we have 84 national monuments. Technically, these are not "parks," but they serve much the same purpose as the parks.

In addition to parks and monuments, there are historical sites, parkways, seashores, and other recreation areas. All two hundred sixty-three, by latest count, are under the administration of the National Park Service, created as a Bureau of the Department of the Interior in 1916. Prior thereto, the national parks and monuments were of the nature of foundlings left on the Department's doorstep. The 1916 Act gave them respectable and responsible parentage.

Jurisdiction over 28 million acres of parks, monuments, and related areas scattered throughout 45 of the 50 states, Puerto Rico, and the Virgin Islands is no mean problem for the Secretary of the Interior, especially in view of the bold rhetoric of the Act. The Service is directed to "conserve the scenery and the natural and historic objects and the wildlife therein and . . . provide for the enjoyment of the same in such manner and by such means as will
leave them unimpaired for the enjoyment of future generations.” Stripped of the legalese, these words mean: entertain all comers, but preserve natural beauty.

That double-barreled directive looked innocent enough in 1916 when the parks were out West and most of the people lived in the East. Moreover, automobiles were still comparatively scarce playthings of the well-to-do. In that year, the 13 national parks had only 350,000 visitors, so there wasn’t much of a problem of “use versus preservation.” Damage through use was negligible.

Then things changed. National parks steadily grew in popularity as summertime vacation spots. New parks were created from time to time, but park demand has begun to surpass park capacity, especially in the most favored parts of parks such as Yellowstone and Yosemite.

Observe the rise in the number of people using the National Park System areas during the past two decades, as shown in the chart. Visits increased threefold while the country’s population rose by only a third. Some of the reasons for the stampede to the parks: higher incomes, more leisure time, growing popularity of do-it-yourself camping, a vastly expanded network of high-speed highways accompanied by widespread ownership of motor cars, concentration of people in urban areas, and the urge to get away from the clatter, clog, and smog of the cities.

HARTZOG HOLDS THE LINE!

Confronted by overwhelming multitudes, National Park Service Director George B. Hartzog and his crew are pushed harder than ever to keep parks open to all comers but unsullied. At Yosemite, for example, Yosemite Valley just wasn’t big enough to accommodate all visitors, lest the park degenerate into a slum. At the peak of the vacation season, the place had become a helter-skelter of tents peg-to-peg, lines of laundry a-drying, camping paraphernalia, piles of rubbish, and parking areas overcrowded with camper trucks, mobile homes, and nondescript rigs.

Something had to be done and something was done. Admissions were curtailed to camp capacity, camping areas were redefined, and rangers assigned camp sites to parties as they arrived.

The bane of many, if not of most parks, is the motor car. Motor vehicles are beginning to crowd the parks as they already cram the cities. According to one survey, over half the vehicles using national park camping facilities
are camper trucks and mobile homes. More and larger vehicles create demand for more and wider roads in the parks as well as pressure for more gas stations, coin laundries, and other citified trappings.

Some park visitors would like to see park roads “modernized,” so that they can dash up to the point of interest, watch a geyser do its act, then dash away so that upon returning home they can tell friends they “did” Yellowstone. The Park Service doesn’t go for scarring parks with blacktop to accommodate speeding motorcades. To be sure, parks are for people, and people come to the parks in their cars. To get people through the parks, the Park Service is considering other means of transportation, such as tramways, helicopters, monorails, minitrains, or bus service. Director Hartzog is striving hard to hold the line.

A NOTE FOR THE AUTOPHILE

For the nature lover who finds it difficult to leave his car, one possibility is Skyline Drive, a winding roadway along the crest of the Blue Ridge through Shenandoah National Park. This 100-mile drive from Front Royal, Virginia, south to Rockfish Gap affords one of the most scenic drives in the country, and the drive is punctuated periodically with parking overlooks where the tourist can stop and feast his eyes on great expanses of exquisite beauty. Where the Skyline Drive ends, the Blue Ridge Parkway begins, and the motorist can enjoy another sky-high sightseeing drive that runs 470 miles southwestward to Great Smokey Mountains National Park. The drive is a dream, and the park to which it leads is a botanist’s paradise.

A PARK IN JEOPARDY

West of the Miami-Palm Beach gold coast and the southeast of Lake Okeechobee are the Florida Everglades—vast and flat expanses of swamp and savanna, cypress and hammock. About a million-and-a-half acres on the southwestern tip of this region bordering Florida Bay and the Gulf of Mexico were set aside in 1947 by Congress as the Everglades National Park. This is the largest remaining subtropical wilderness in the conterminous United States and it has long served as a breeding and feeding area for egrets, ibises, herons, and other rare birds formerly decimated by ruthless hunting. Here visitors may also see deer, alligators, turtles, and a variety of subtropical flora, including wild orchids and air plants. Directly north of the park and just inches higher in elevation is Big Cypress Swamp. From this source, water drains into the park to keep plants and animals alive and in delicate ecological balance.

In the Big Cypress Swamp, construction has begun on what was to be a huge jet airport, and trainer planes are already operating on the one completed runway. In anticipation of commercial development, people had previously bought wilderness by the acre in hopes of draining off the water and selling later by the front foot. Realizing that water is vital to the life of the park, conservation interests have sought help to save it. Through the intercession of President Nixon, construction of the jetport has been halted for a period of three years during which another site is to be found. But what if another site can’t be found?

AH, WILDERNESS!

Early Americans had too much wilderness, almost nothing else but. So they cut, burned, ploughed, bulldozed, and dynamited until very little wilderness is now left. Widespread de-
struction of wilderness finally bore down so hard on the national conscience that Congress passed the Wilderness Act of 1964, which states that Congress shall designate sections of federal lands to be kept in a wild state forever. The Act requires the Park Service to delineate exact boundaries of acreage in parks to be kept free of roads, formal camp grounds, and like accouterments of civilization for all time to come. This task will be difficult. The crucial question is whether Americans, addicted to automobiles, can be lured into a wilderness without having roads built for them.

BRING PARKS TO THE PEOPLE

Because the public domain in the West is huge, it has many national parks. But what about the East? To bring parks closer to the people, special efforts have been made in recent years to establish more of them in the populous East. Examples are the seashore recreational areas of which the East Coast now has four.

Established first was Cape Hatteras National Seashore, noted for its beaches, migratory waterfowl, fishing, and points of historical interest, notably Cape Hatteras Lighthouse overlooking the “graveyard of the Atlantic.” Assateague Island National Seashore is a 35-mile barrier island off the Maryland-Virginia coast, the home of Chincoteague ponies, sika deer, and waterfowl aplenty. Fire Island National Seashore is a barrier island off the south shore of Long Island with dunes, marshes, wildlife, and beaches. Last and largest of the four is Cape Cod National Seashore. It has ocean beaches, dunes, woodlands, fresh water ponds, and marshes on outer Cape Cod—for three centuries a landmark and haven for mariners. Anyone who loves the edge of the ocean would enjoy a visit to these recreational areas.

Too many parks are too far away from the people who need them most. Metropolitan New York, for example, has many families who just can't afford a trip to the nearest national park. Yet within the bounds of Metropolitan New York are 20,000 acres of land practically unused and still unpaved.

It has been proposed that this open land, consisting of five different parcels, but all in or adjacent to lower New York Bay, be utilized to create Gateway National Recreation Area. Here are lands and water, marsh and uplands, sands and surf, sunshine and open sky awaiting development for the economic captives of New York City, Jersey City, and Newark.

Access to this five-point recreation area is to be provided by low-fare ferries that would link the Gateway units with existing subways and rail terminals and with key highway junctions. The greatest obstacles facing the Gateway National Recreation Area project are the polluted waters. However, the states of New York and New Jersey have already drawn up plans to clean the harbor so that the waters will be safe for swimming. Gateway may yet become a model for urbanized park development.

Closer to home, about six miles north of the picturesque Delaware Water Gap, is a little island in for a big time. At the southern tip of Tocks Island, the Army Corps of Engineers will construct an earthen dam across the river to create a 37-mile-long reservoir for purposes of flood control, domestic and industrial water supply, and hydroelectric power. Surrounding the lake on both the Pennsylvania and New Jersey sides will be a 6,200-acre playland—the Delaware Water Gap National Recreational Area. Scheduled for completion in the mid-seventies, the park will provide a variety of watery and woodsy recreation facilities for the people in the heavily populated New York-Philadelphia corridor.
WHY SO FEW NATIONAL PARKS?

In 1972, there will be a to-do by way of celebrating the one hundredth anniversary of our first national park. Very likely, oratory will resound and Yellowstone abound. But after almost a hundred years, we still have only 33 national parks. Only four new parks have been added during the past two decades. Why so few?

Hitherto, most of the parks have been created out of transfers of property from federal agencies or gifts from states, individuals, or philanthropic organizations. Not until 1961 did Congress authorize expenditure of money to buy privately owned land to create a park—$16 million for Cape Cod National Seashore. No doubt one reason for the Congressional reluctance to buy land for parks is the strange propensity of land, howsoever scrubby, to skyrocket in asking price when it is rumored that Uncle Sam is in the market. Moreover, in our restless, demanding society, money for parks has been down near the bottom of the totem pole of priorities until the past few months, when the Administration asked for full funding of the Land and Water Conservation Fund, from which money to buy park lands is appropriated. Possibly, the widespread public focus on ecology will add emphasis to the plight of parks.

WHAT IS A PARK WORTH?

Park operation and maintenance cost money, and each year at budget time the national parks come under official scrutiny. The inevitable question always arises: Are park benefits worth park costs? The costs are readily ascertainable, but not so the benefits.

Sharp-pencil people have tried to develop formulas to measure benefits and have come up with a yardstick like the person-park-day, which puts a dollar value on what a vacationer gets out of a day in a park. But satisfaction depends upon the person, the park, and the day. Different people go to different parks on different days for different reasons. How can one compare a park-day mule-backing down Grand Canyon with a park-day taking a nature walk with a park ranger in the Grand Tetons? Individual satisfactions are subjective, intangible, immeasurable. Inevitably, value judgments must be made, and conversions to dollar amounts may not fully reflect satisfaction. Moreover, the valuations are complicated by the scope of benefits provided by parks. In addition to affording opportunities for recreation and casual education, parks help maintain ecological balance to save the animal, vegetable, and mineral resources of the nation. Wherever a wilderness can be preserved, a laboratory for research into the operation of nature is provided. No less important, nature has its own beauty which is of aesthetic value. Finally, parks may help pump money into nearby towns leading to economic benefits.

National parks are valuable natural resources well worth being preserved, improved, and increased in number. Each year the Secretary of the Interior issues what can be taken as a Report to the Stockholders—the country’s 200 million people—delineating the accomplishments and work in progress of the Interior Department. On reading the latest release entitled, “Man . . . An Endangered Species,” it is gratifying to learn what is being accomplished by way of husbanding our natural resources, but also frightening to learn of the mammoth task ahead.
Every major city in the country faces pressing demands for increased capital spending. As new growth sprawls into the countryside, all community facilities—schools, parks, water and sewer systems, libraries, and police and fire stations—must be constructed. At the same time inner-city residents urge replacement of overcrowded and unsafe community facilities. And a growing low-income population in major cities places heavy demands on local government for health, education, and recreation services.

Responding to these diverse demands is a difficult problem facing decisionmakers in local government. Because capital expenditures affect the quality of each taxpayer’s neighborhood, neighbors apply pressure to make sure that they receive an adequate amount of new facilities. Public policymakers, who must answer for the decision of where and how much to build, must also answer to the overwhelming number of

ABOUT THE DATA

This study is based upon an original compilation of data on capital expenditures for the City and School District of Philadelphia. The data represent the cost and neighborhood location of all capital projects since 1952. Data on capital expenditures of the City were drawn entirely from the “Major Projects Completed or Under Way” section of three Capital Programs—1958 to 1963, 1963 to 1968, and 1968 to 1973, City of Philadelphia. Costs of school projects were obtained from the files of the Department of Subsidies and Capital Budget, Office of the Executive Director of Finance, School District of Philadelphia. Estimated costs of planned school projects were collected from the Proposed Revision of Capital Budget and Program, 1970-75, School District of Philadelphia.

Readers may obtain a summary table of recreation and school capital expenditures for thirty-eight Philadelphia neighborhoods from the Department of Research, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

1 The author began work on this project when he was a staff member of the Regional Science Research Institute of Philadelphia. He gratefully acknowledges the financial assistance of the Institute during the early stages of the study.

2 Our thanks to Mr. Mario Nascati and Mr. John McQuaid, of the School District’s Subsidies and Capital Budget Department, who made school cost files available.
citizens who want lower taxes. There are no easy guides to a palatable middle ground between enough facilities for all and a reduced tax load.

We have looked at how the city government and school district of one large urban center—Philadelphia—have worked out the problem of distributing capital spending to neighborhoods. Philadelphia is an interesting case because the City has a long history of planned capital spending—going back to the late 1940’s.

**HOW CAPITAL SPENDING IS PLANNED**

Facility planners take the place of the private market when they decide how to distribute tax dollars among neighborhoods. Their job is to estimate demand for new facilities and to allocate available revenues among competing demands. To determine needs of a neighborhood’s residents, they estimate (1) the degree that existing facilities are overcrowded or unsafe, and (2) the level of personal income available to purchase similar services in the private market.

**Standards of Service.** To estimate the degree that existing facilities are overcrowded or unsafe and to set priorities, planners use rules of thumb, called “standards.” One type of standard is stated in terms of the capacity of a facility. For example, a consensus of national and local organizations for administrative and teaching personnel has established 30 students per classroom as a maximum group size for formal learning. When there are more than thirty students in a classroom, pressure exists to construct new space.

Capacity standards also are used for other kinds of facilities. Recreation planners of the City of Philadelphia specify, for example, that playgrounds should serve 11,000 to 12,000 people on three to eight acres depending upon residential density. Similar standards are used for play fields, district parks, and recreation centers.

Planners schedule construction when a neighborhood’s facilities fail to meet minimum capacity standards. This method of measuring demand for new facilities emphasizes rapidly growing areas where little or no capacity exists when new families move in.

In addition to capacity standards, site and building standards are important in measuring demand. Site standards are used to establish minimum requirements for building location on lots, and amount of parking and recreation space in facility planning for schools.¹ In recreation planning, site standards are used to allocate space among various play activities. For example, each playground is designed to provide a minimum amount of space for tot-lots used by young children, while supplying more extensive areas for ball fields and tennis courts used by teenagers and adults. Standards of this type are established to provide a variety of recreation activities and to assure safety of users.

Finally, building standards are used to evaluate the condition and safety to existing structures. In many cases older school buildings or recreation centers do not meet modern standards of fire-resistant construction. Nonfire-resistant buildings are costly—in terms of human safety and higher insurance rates.

In contrast to capacity standards, site and building standards establish a priority for expenditures in older neighborhoods of the city. While school buildings, for example, may have sufficient classroom capacity to handle existing expenditures, site and building standards will ensure that new facilities are located appropriately in rapidly growing areas.

Both the School District and City of Philadelphia use deficit financing for construction of new facilities. The City of Philadelphia pays for more than 80 per cent of its expenses for community facilities by sale of debt. The remaining portion is covered by pay-as-you-go allocations from the operating budget and intergovernmental grants. Currently, the School District finances all its construction from debt.

Since 1950, the City of Philadelphia has had annual voter approval to issue facility bonds—approvals amounting to $680 million worth of bond issue since 1960. (See Chart 1.) The School District has begun only recently a vigorous construction program. In the 1950's and early 1960's, the average yearly loan authorization was less than $20 million. Since a new Board of Education was appointed in 1965, the School District has introduced a long-range capital program and has received voter approval for four bond issues totalling over $330 million. (See Chart 2.)
HOW IS THE DEBT TO BE REPAYED?

Over half of the total loans authorized for the City of Philadelphia are scheduled to be repaid with revenue generated by the facilities constructed (shaded area in Chart 1). These revenue bonds are commonly used for the construction of sewer and water lines, air and water ports, transit systems, and municipal stadiums. Each facility is expected to pay its own way through assessment of a charge for service provided—for example, sewer and water rates, rental of space to transport carriers, train and bus fares, and tickets to sports events.

The remaining level of loan authorization (unshaded portion in Chart 1) will be repaid with revenue from City property, wage, and miscellaneous taxes. Tax-supported loans are used for street improvements, new parks and recreation centers, police and fire stations, libraries, health centers, and municipal buildings. Debt service on tax-supported loans ranges from 12 to 15 per cent of the City’s annual operating budget.

Revenue for servicing the debt of the School District comes from taxation of Philadelphia residents and from State of Pennsylvania construction subsidies. Each year, the School District uses revenue from its real estate, business net profits, general business, and other taxes to repay construction debt. In addition, the State of Pennsylvania reimburses the School District on the basis of pupil capacity added with each new school or addition. In some cases, this State subsidy is expected to cover over half of a new school’s total cost. While jumping from $9 million per year in the early 1960’s to over $29 million in 1970, debt service on the School District’s facility loans has remained at 7 to 8 per cent of the operating budget.
enrollments, lack of adequate playground area and parking space or heavy thoroughfare traffic may make sites overcrowded and dangerous.

**Income Levels.** Project priorities may reflect also the special problem of neighborhoods with low-income families. As income rises, families depend less and less upon some public services. Private and parochial schools, for example, offer options to residents of Philadelphia who can afford the extra expense. Also, vacations away from Philadelphia or private tennis and swim clubs became alternative sources of recreation only when incomes rise. Low-income residents of Philadelphia, however, have few, if any alternatives—for education and recreation. They depend primarily upon the services provided by the City and School District. In recent years, municipal leaders across the country have recognized the importance of improving facilities in low-income neighborhoods and giving special consideration to residents with limited access to private health, education, and recreation services.

**A Complication—Population Density.** The job of distributing community facilities to Philadelphia neighborhoods is complicated by the higher costs of acquiring land and constructing buildings in areas with high density of population. Land is usually expensive in densely developed neighborhoods. High land prices boost costs of a project.

In addition to more expensive land, crowded neighborhoods cause other problems. Assembling small lots and clearing titles add administrative costs not found in low-density neighborhoods. And, frequent use of land clearance in highly developed areas raises costs of projects, as well as imposing personal costs on residents who must be relocated.

Public facility planners take some of these complications into consideration by adjusting site standards to reflect the cost of acquiring and clearing land. Lower acreage requirements are set for high-density neighborhoods than for low-density areas. These flexible site standards are a recognition of the extraordinarily high direct and indirect costs which may result when uniform standards are applied to radically different types of neighborhoods.

**HOW THE PLANNING PROCESS WORKS OUT**

Facility standards, family income, and density of development are measures commonly used by planners to distribute public facilities. A review of capital expenditures over the last 18 years shows how planners in Philadelphia have
used these measures to reconcile the conflicting demands of various neighborhoods in the city within the constraint imposed by limited funds. For the years 1952 through 1969, City and School District projects were distributed among twelve planning analysis sections established by the Philadelphia City Planning Commission for the purposes of long-range planning. (See Map.) These sections represent groups of widely recognized Philadelphia neighborhoods.  

Capital expenditures of the City of Philadelphia included in this study are those for recreation (parks, playgrounds, and recreation centers), police and fire stations, libraries, and health centers. School District expenditures include amounts spent on elementary, secondary, and special schools. All these facilities directly benefit neighborhood residents, so we expected their distribution to be sensitive to the demands of each neighborhood.

Noneducation Facilities. The City of Philadelphia has spent a total of $25 per resident since 1952 for neighborhood facilities. But not all areas benefited equally. Per capita expenditures range from $15 for Olney-Oak Lane to $35 for Center City and Upper North Philadelphia. (See Chart 3.)

A major chunk of spending on neighborhood facilities by the City is that made on recreation facilities. In fact, one-half of the total expenditures on neighborhood facilities is allocated to parks, playgrounds, and recrea-

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2 Long-range plans have been developed by the City Planning Commission for the West Philadelphia section (includes Mantua, Cobbs Creek, Overbrook, Wynnewood, and other neighborhoods) and the Northwest Section (including Roxborough-Manayunk and Germantown-Chestnut Hill).

3 All expenditures are given in per capita terms. Expenditure data was adjusted with a construction cost index for Philadelphia.
AND INDIVIDUAL CATEGORIES LIKE RECREATION VARY EVEN MORE.

An important part of neighborhood capital spending by the City of Philadelphia was that allocated to parks, playgrounds and recreation centers. An average of $12.50 was spent on each resident, ranging from $6 in Roxborough-Manayunk to $22 in Southwest Philadelphia.

![Chart 4: Capital Expenditures Per Resident on Recreation Facilities, 1952-1969*](chart4)

'Expenditures of both the Recreation Department and Fairmount Park Commission are included. Projects by the Fairmount Park Commission were counted only if they were for parks and playgrounds that have primarily local neighborhood usage.

Expenditures for all neighborhood facilities combined vary somewhat less from section to section than do expenditures for recreation projects alone. Thus, a neighborhood with somewhat fewer park improvements than another received compensating expenditures on a library, fire station, or similar facility. While it was not possible to isolate the specific reasons for this equalization tendency, similarity of expenditure on all facilities may suggest one reason for the continued public support of capital spending in Philadelphia.⁵

However, differences do exist among neighborhoods in the level of spending. A careful examination of recreation spending, using statistical methods, showed four factors to be important determinants of neighborhood variation—population growth, amount of park land, an index of park use, and density—while a fifth factor, income, was not important.

⁴Expenditures of both the Recreation Department and Fairmount Park Commission are included. Projects by the Fairmount Park Commission were counted only if they were for parks and playgrounds that have primarily local neighborhood usage. Also, no expenditures by the Museum or Zoo were included.

1. Population Growth. Rapidly growing neighborhoods tended to receive more expenditures than areas with stable or declining population. This additional spending was aimed at maintaining minimum capacity standards for recreation facilities. This factor was especially important for Far Northeast Philadelphia, which grew from 27,000 residents in 1950 to over 110,000 in 1964. (See Chart 4.)

2. Amount of Park Land. Neighborhoods with below average amounts of park and playground space received greater expenditures than did neighborhoods which were more generously endowed. Since neighborhoods with very low park and playground acreage are found in both old and new areas, many sections of the city benefited by recreation expenditures.

3. Park Use. Surprisingly, neighborhoods with little recreation space and a lot of people did not receive above average expenditures. In fact, our analysis showed that neighborhoods with a lower usage of their recreation facilities—ones with a low ratio of people to public recreation space—received more expenditures than neighborhoods with higher usage. This partially explains the above average expenditures found in Center City, Southwest, and Upper North Philadelphia. (See Chart 4.)

4. Income. Neighborhoods characterized by either low income or a high proportion of Negroes did not receive above or below average recreation expenditures. In the distribution of recreation expenditures, therefore, the City of Philadelphia did not give special attention to either neighborhood income or racial balance.

5. Density. Population density, however, did account for a significant portion of the differences in recreation expenditures among neighborhoods. Greater expenditures in high-density neighborhoods were caused by the cost of land, its acquisition and clearance.

Education Facilities. We also analyzed the major factors which influence expenditures on education facilities. We found the School District placed high priority on the problem of eliminating classroom overcrowding during the 1950’s and 1960’s.

1. Overcrowding. Neighborhoods in the Near and Far Northeast sections of the city, as well as Kensington, Germantown, Center City, West and North Philadelphia benefited from above average expenditures on schools because of overcrowded classrooms. (See Chart 5.) The overcrowding problem was especially acute in the Far Northeast section, where capital expenditures have averaged over $1700 per student—
PAST SPENDING ON SCHOOLS HAS BEEN DOMINATED BY
THE RAPIDLY GROWING NORTHEAST . . .

During the years 1952 to 1969, the School District of Philadelphia spent $635 per student for new education facilities. Above average expenditures were made in Far Northeast, Lower North, Germantown-Chestnut Hill, and Center City Philadelphia, to eliminate severe classroom overcrowding.

More than twice the $635 per student average for all sections.

Combining planned but unbuilt facilities with the School District’s construction in the past two decades, we found that considerations in addition to overcrowding influence current expenditure distribution. In particular, the School District emphasizes spending in areas with great population change and low income.

2. Population Change. School expenditures are high in neighborhoods that underwent dramatic population changes during the last twenty years. Neighborhoods in the Northeast saw rapid population increases. Some older neighborhoods, while retaining nearly the same number of people, transformed from white to predominantly Negro in composition. Neighborhoods with either characteristic—rapid growth or change in racial mix—account for a portion of the expenditure differences shown in Chart 6.

3. Income. Unlike the City’s recreation expenditures, the School District responded to the
income of residents. The School District spent more in neighborhoods with low income. The wider variety of formal and informal learning and recreation activities of school facilities in low-income areas underlies these high per student allocations. While low-income neighborhoods have received above average expenditures, we could find no evidence of emphasis in spending on neighborhoods with high nonwhite enrollment.

**POLITICS AND PLANNING**

While these measures of demand are important, there is another reason recreation and education expenditures differ among neighborhoods: the influence of neighborhood groups and organizations. In large cities such as Philadelphia, some residents will be organized and vocal in making their preferences known to decisionmakers. When neighborhood residents press frequent demands on city council or the school board, the result eventually may be special consideration. Because community pressure defied precise measurement, we were not able to include it in our analysis.

**IN CONCLUSION**

No doubt political pressure and other factors influence Philadelphia's capital spending. Nonetheless, there is an underlying administrative rationale involved in the distribution of expenditures on new facilities. Each type of neigh-

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**CHART 6**

**BUT MAJOR INVESTMENTS ARE PLANNED IN OTHER AREAS.**

With public support of the School District's 1970-75 Capital Program, spending will rise to $1965 per student. Neighborhoods with overcrowded school classrooms, dramatic population changes, and low income families will receive much of the additional expenditures.

**Capital Expenditures Per Student, 1952-1970 Capital Program**

![Bar chart showing capital expenditures per student by neighborhood category.](http://fraser.stlouisfed.org/)
neighborhood—new, old, and low-income—gets some of the pie.

Since the goals of capital spending are complex, whether or not this planning process is the best one, or whether it even works well, is a difficult question. In part, planning of outlays is meant to substitute for the private market, allocating public goods to those who would be willing to pay the most for them. In addition, the allocations of capital are used to redistribute the benefits among income classes. Whether the process used by Philadelphia achieves balance between the numerous desires of citizens can only be determined by the voters. However, the deliberate planning and resulting systematic distribution of expenditures in Philadelphia is an example that other cities may want to consider in designing their own spending process.

**TECHNICAL APPENDIX**

The conclusions reported in this article are based upon a statistical analysis of capital spending in thirty-eight Philadelphia neighborhoods. The relationship between capital spending and neighborhood characteristics was established with a multiple regression model. Seven neighborhood characteristics were chosen to explain variation in capital spending on recreation and education. These characteristics explained 39 per cent (Multiple R² in Table) of the neighborhood variation in expenditure on recreation facilities and 47 per cent of neighborhood variation in capital expenditure on schools.

**RECREATION**
Capital Expenditures Per Capita, 1952 to 1969,
City of Philadelphia

<table>
<thead>
<tr>
<th>Source of Neighborhood Variation</th>
<th>Regression Coefficient</th>
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</thead>
<tbody>
<tr>
<td>1. Maintenance of Minimum Standards</td>
<td></td>
</tr>
<tr>
<td>a. Change in Population 1950 to 1964</td>
<td>0.3587*</td>
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<tr>
<td>b. Total Acres in Recreation Facilities</td>
<td>-0.1476*</td>
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<tr>
<td>c. Population Per Acre of Recreation Land</td>
<td>-4.9271*</td>
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<td>d. Migration Index</td>
<td>-0.0881</td>
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<td>2. Economic Means</td>
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<tr>
<td>e. Median Income</td>
<td>0.5046</td>
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<tr>
<td>f. Per Cent Nonwhite Population</td>
<td>10.9323</td>
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<tr>
<td>3. Costs of Land and Construction</td>
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<tr>
<td>g. Population Density</td>
<td>0.1173*</td>
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Multiple R² = .391
F value (7,29) = 2.66
*Significant at .025 level or better

**EDUCATION**
Capital Expenditures Per Student, 1952 to 1969, plus Planned Expenditures, 1970-75,
School District of Philadelphia

<table>
<thead>
<tr>
<th>Source of Neighborhood Variation</th>
<th>Regression Coefficient</th>
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<tr>
<td>1. Maintenance of Minimum Standards</td>
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<tr>
<td>a. Total Enrollment</td>
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<tr>
<td>b. Change in Enrollment 1955 to 1966</td>
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<td>c. Index of Classroom Overcrowding</td>
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<td>d. Migration Index</td>
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<td>e. Median Income</td>
<td>-0.7277*</td>
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<td>f. Per Cent Nonwhite Enrollment</td>
<td>-1.0997</td>
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<td>3. Costs of Land and Construction</td>
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<td>g. Population Density</td>
<td>0.0006</td>
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</tbody>
</table>

Multiple R² = .467
F value (7,29) = 3.48
*Significant at .05 level or better

**DEFINITION OF VARIABLES**

**RECREATION**
Dependent Variable:
Capital Expenditures per Capita, 1952 to 1969.
Source: See note “About the Data.” Per capita calculation was based on 1964 population estimate for planning analysis sections by the Philadelphia City Planning Commission (P.C.P.C.), Public Information Bulletin, April, 1966.
Independent Variables:


c. **Population Per Acre of Recreation Land.** 1964 population per acre of recreation space available in 1952 was used as an estimate of park use during the study period. Source: P.C.P.C., *Public Information Bulletin*, 1966; 1952 recreation acreage was estimated with *Inventory of Recreation Resources*—1968, net of acres added during years 1952 to 1969.

d. **Migration Index.** Net white and Negro migration 1950 to 1960 as a percentage of 1950 total population. Source: U.S. Census.

e. **Median Income.** Average of census tract median incomes contained within neighborhood. Source: U.S. Census, 1960.


**EDUCATION**

Dependent Variable:

*Capital Expenditures per Student, 1952 to 1969 plus Planned Expenditures, 1970-75.* Source: See note “About the Data.” 1966 enrollment was used in per student calculation. Data does not include expenditures on alterations and improvements.

Independent Variables:


d. **Migration Index.** Net white and Negro migration 1950 to 1960 as a percentage of 1950 total population. Source: U.S. Census.

e. **Median Income.** Average of census tract median incomes contained within neighborhood. Source: U.S. Census, 1960.

f. **Per Cent Nonwhite Enrollment.** Nonwhite enrollment as a percentage of total enrollment in the neighborhood schools. Source: School District of Philadelphia.

FOR THE RECORD...

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**BUSINESS**
- FACTORY PAYROLLS, DIST. (1967-1959 = 100)
- FACTORY EMPLOYMENT, DIST. (1967-1959 = 100)
- CONSUMER PRICES, PHILA. (1967-1959 = 100)

**SUMMARY**

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<td>Employment, total</td>
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<td>Wage income*</td>
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<td>CONSTRUCTION**</td>
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**LOCAL CHANGES**

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**PER CENT CHANGE**

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<tr>
<td>mo. ago</td>
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**PERCENT CHANGE**

**DIGITALIZED FOR FRASER**

http://fraser.stlouisfed.org/

Federal Reserve Bank of St. Louis