

FEDERAL RESERVE BANK of PHILADELPHIA

NEWS RELEASE

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For Immediate Release

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David P. Eastburn, president of the Federal Reserve Bank of Philadelphia, today called for the creation of a new department within City government, the Office of Economic Affairs, to help Philadelphia deal more effectively with its economic and financial problems. The new department, he said, would be responsible for developing long-range solutions to the economic problems facing the City through a combination of professional and community expertise.

Speaking before the Economic Advisory Committee of the Greater Philadelphia Chamber of Commerce and the PENJERDEL Corporation in Philadelphia today, Eastburn stated that a more comprehensive and analytical approach to dealing with the City's financial dilemma is long overdue.

We have the technology, resources and ability to make significant progress toward solving these problems through the application of improved management and budget techniques and increasing the productivity of available tax dollars. More efficient management of resources is not necessarily a panacea, Eastburn said, but it will do much to help and is a positive step we can take now.

Outlining some of the functions of this new department, Eastburn said it would seek ways of applying new management techniques to city problems, evaluate benefits and costs of programs requiring city resources, and analyze the cost-effectiveness of producing municipal services. Each of these functions would improve the City's productivity in providing services.

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The department would be staffed with professionals whose job requirements are defined in terms of professional skills and achievements rather than party allegiances, and would be sufficiently independent of city control to be critical when needed. It could take a long-run view of City problems and thus help to avoid recurring fiscal crises.

According to Eastburn, the City's current fiscal dilemma has taken a long time to develop and it won't be solved by any quick cure, even a heavy tax hike. A primary cause of the City's fiscal woes is the "mismatch" between the City's growing need for funds and the lagging growth in its tax base. It is this fundamental shortfall that City officials must face up to now, Eastburn said.

Socio-economic changes in our urban centers have created demands for more and more municipal services such as police protection, schools, aid for disadvantaged groups, cultural opportunities and the like. These are services few citizens want to see eliminated or cut back.

Local tax revenues needed to pay for these growing demands have failed to keep pace, Eastburn noted. Property taxes in Philadelphia, for example, have been rising about one and a half per cent annually in recent years mainly because of the lag in reassessments. The ratio of assessed value to market value of property in the City has fallen from about 60 per cent to 40 per cent in the last decade.

Eastburn stated that large-scale injections of Federal and state funds have helped mask a major portion of this shortfall between expenditures and revenues. Between 1965 and 1974, for example, property taxes rose 87 per cent nationally while intergovernmental revenues (such as revenue sharing) went up 370 per cent. In the same period, revenue from state and Federal sources jumped from 38 cents to 85 cents of every local revenue dollar.

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In Philadelphia such revenues increased nearly sevenfold in just five years, climbing from \$51 million in Fiscal Year 1971 to a projected \$379 million in Fiscal 1976.

While logic may favor even greater use of intergovernmental revenue transfers, Eastburn said he doubts whether cities can continue to count on still more state and Federal help in the future to cover still greater demands for municipal services. Both state and Federal governments are having budget problems of their own, he noted, and are not likely to go on financing an increasingly higher proportion of city expenditures.

The revenue/expense shortfall Eastburn said, has been exacerbated by the twin developments of recession and inflation that racked the economy in recent years. High unemployment brought on by the worst recession since the 1930s caused not only a decline in revenues from wage taxes but a simultaneous increase in the demand for social services. Rising prices meanwhile were reflected in rapid increases in the City's operating and financing costs.

These aspects of the fiscal dilemma are improving with the business recovery, but the fundamental problem remains, Eastburn said, and it can't be solved without some basic changes in the way city services are financed and managed.

With worthy objectives far outstripping available funds, Eastburn said, city officials must devote more energy to improving the effectiveness and efficiency with which they deliver services, and allocate resources where they will generate the most good.

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