DISCUSSION

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Professor Thompson's paper, as he notes, is a condensation of a much larger study. In consequence, it is somewhat difficult for the discussant to play his traditional role of critic and knit picker. Further, rather than ready to pick, I find myself more in a "hear hear" role. The most appropriate thing to do, therefore, is to point up a couple of the implications, possibly extensions, of his analysis.

Thompson's discussion of local business cycles leads him to conclude that "elaborate efforts to measure the local multiplier do not rate a high priority." The simple multiplier formulation implicit in his discussions is of the following variety:

$$\Delta Y_T = \Delta Y_X \times \frac{1}{1 - \frac{\Delta Y_L}{\Delta Y_T}}$$

where Y_T = the total local income

Y_X = the autonomous local income derived from exports

Y_L = the income derived from production for local markets

The local consumption function component, $\frac{Y_L}{Y_T}$ assumes the marginal and average propensities are equal and constant--although this assumption is not critical.

Given this formulation, Thompson is correct noting that proportional changes in the level of exports produce proportional changes in the level of total activity. If one's interest is in comparing the cyclical sensitivity of two regions with this type of formulation in mind there is no sense in actually measuring the multiplier. Indeed, it would amount to measuring a tautology.

My concern here is twofold: (1) the relevant propensities may not be proportional, i.e. a 20 per cent decline in exports may not imply a 20 per cent drop in total activity; and (2) measurement of the local multiplier has many other uses aside from measurement of cyclical stability. The first point can be immediately appreciated when it is recalled that the local consumption propensity is really a combination of a number of propensities such as, consumers, business investment and housing investment.

One of the other uses of the multiplier is in forecasting long-run growth. The traditional approach is to estimate the changes in the level of exports and, via the multiplier, estimate the total change. While this technique, like any forecast, has pitfalls, it is still useful and requires a multiplier measurement.

In this regard, there is a difference in the use of the multiplier in measuring cyclical vis-a-vis growth impacts that is not sufficiently recognized. Cyclical imports relate to short-run changes. Within a region, per capita incomes rise and fall over the cycle. The appropriate propensities, lags aside, are marginal propensities. The availability of empirically determined marginal propensities at a regional level is all but nil. Long-run growth may prevent a different issue. For areas such as Los Angeles, Phoenix and Miami, the major change in total income comes about through increased population, not increased per capita income. If new residents' spending habits are the same as established residents', a cross section study of average propensities is relevant. Thus one of the empirical tasks of developing time services is not so urgent, and even a relatively simple multiplier is useful.

Thompson's points with respect to income distribution and local public finance are well taken. My only concern is that we do not confuse the issues. It is true that tax colonies exist within our metropolitan regions. It can also be asserted that some areas are "too poor" to afford "needed" services. Yet it is also necessary to keep distribution questions separated as much as possible from those of public goods and services provision.

Thompson's notes that "free local public services could come to be the principle instrument of income redistribution in the coming decade." This raises a troublesome question in the area of fiscal federalism, who is to bear the net tax-benefit loss in this redistribution? The argument is that the New York City well-to-do alone should not bear the total redistribution cost for the city's slum improvement. The suburbs in the metropolitan area should also be required to bear part of this cost. The notion is that they are also members of this community, even if the political boundaries are not coterminous with "community" boundaries.

Historically with less mobility and less rapid urban growth this position, it would seem, had more merit. Today it is not clear that the well-to-do along Philadelphia's Main Line or Detroit's North Shore should be solely responsible for the welfare of the in-migrants to these communities. This is a Federal function. Indeed, much of the redistribution in the form of goods and services has been federally subsidized and, I guess, for just this reason. Without such a subsidy the few well-to-do in an otherwise poor community will bear a disproportionate share of the costs compared to their equals in other communities. To argue, as some have, that the wealthy benefit, misses the whole point. If they do, then by any reasonable definition there has not been a redistribution. All this points out that we should be quite careful in looking at redistribution versus other governmental functions in metropolitan areas.

To repeat, I suspect these points are not new to Professor Thompson and only hope to extend his fine analysis.