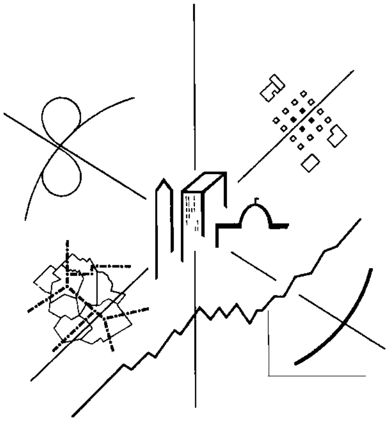
RfF

A PREFACE TO URBAN ECONOMICS



WILBUR R. THOMPSON

published for
RESOURCES FOR THE FUTURE, INC.
by
THE JOHNS HOPKINS PRESS, BALTIMORE

RESOURCES FOR THE FUTURE, INC., 1755 Massachusetts Avenue, N.W., Washington, D.C. 20036

Resources for the Future is a nonprofit corporation for research and education in the development, conservation, and use of natural resources. It was established in 1952 with the co-operation of The Ford Foundation and its activities since then have been financed by grants from that Foundation. Part of the work of Resources for the Future is carried out by its resident staff, part supported by grants to universities and other nonprofit organizations. Unless otherwise stated, interpretations and conclusions in RFF publications are those of the authors; the organization takes responsibility for the selection of significant subjects for study, the competence of the researchers, and their freedom of inquiry.

This book is one of RFF's regional and urban studies, which are directed by Harvey S. Perloff. Wilbur R. Thompson, professor of economics at Wayne State University, began the present study in 1961 as an RFF research associate, while on leave from his university. Through an RFF grant to Wayne State he began another assignment with RFF in 1964 as staff director of the Committee on Urban Economics.

Director of RFF publications, Henry Jarrett; *editor,* Vera W. Dodds; *associate editor,* Nora E. Roots.

Printed in the United States of America

Library of Congress Catalog Card Number 65-19537

Originally published, 1965

Second printing, 1967

PREFACE

Three years ago the author undertook to describe and evaluate a subject matter which gave promise of becoming a new field of thought: the economics of urban growth and development. Very early in this effort it became clear that the inexorable trend toward very large, extremely complex, urban places would make the understanding and management of the process of urbanization one of the two or three most challenging and critical domestic issues of the latter half of the twentieth century. And it seemed inconceivable that the skills of the economist would not be needed.

A corollary judgment was also reached that since the city is much less a pure economic organism than the firm or industry with which economists have traditionally been concerned, the conventional wisdom of economics would not translate easily nor even be enough. A long study was in prospect. Further, the distinguishing characteristic of economics is the rigor that is achieved through formal methods of analysis—mathematical and statistical techniques. But the promise of economic analysis is realized only when the simplifications that permit the construction of formal analytical models do not entail too great a cost in realism and social significance. The research strategy chosen, therefore, was to break the surface of this new and strange world by first composing a preface to urban economics, skipping lightly across nearly the full reaches of the city. Only then, with some feeling for the half-dozen or so critical variables that determine in large part the form and functioning of the city, might significant progress be made toward formulating theories and setting forth rigorous principles. A decade would surely be needed to prepare a true "principles of urban economics." The work of testing and reformulating hypotheses has, of course, no end.

This preface to urban economics is, then, a first step or at best an intermediate product. But a new field can languish for lack of easily accessible educational materials. University faculty members, for example, are most reluctant to teach courses in new fields, prior to the existence of textbooks or reasonable facsimiles thereof; it is very difficult and inefficient to base courses on fugitive, specialized pamphlets and journal articles existing only in single library copies. State and local finance, a subject closely related to urban economics, is still an infrequently scheduled course, reflecting decades of bare existence without good teaching materials. Today specialists in this field are very rare and much sought after. While the appearance of this work may in some respects seem premature, it is offered in the belief that an introductory work in urban economics, however tentative, will encourage faculties to offer courses in the subject sooner and more often than they otherwise would have done.

The book is a substantial revision of a preliminary multilith version that was used experimentally in about twenty classrooms across the country in the fall of 1963. The reader is presumed to have completed a one-year "principles" course in economics (or be willing to remedy such deficiency by reading the national income and price theory parts of any standard text) and to have attained the general level of intellectual maturity ordinarily associated with senior undergraduate standing. Thus the book can also be used as collateral reading in upper-division or graduate school courses in business administration, political science, sociology, urban planning, or urban-regional geography.

A second objective is to share these early thoughts with fellow students of the city, especially those with whom the author is unacquainted. The market in ideas is quite as imperfect as most of the others with which economists must deal. These two objectives are, moreover, interrelated because most of the new urban economists will have to come from the uncommitted generation of economists-to-be now in classrooms. The surest, if not the shortest, road to good research is roundabout through the classroom.

The history of economic thought teaches us that the pace of intellectual development is slow; a gestation period of a generation for a new field is not unusual. The generation that lights the torches is not likely to balance the scales.

This book is, therefore, directed to the student who is willing to trade the neat catechism of the textbook in a mature field for the mildly chaotic excitement of the tract in a new one.

The author is greatly indebted to the Committee on Urban Economics of Resources for the Future, Inc., for the financial support which made possible the year of uninterrupted thought and writing which culminated in the first draft of this work. CUE also financed a limited distribution of multilith copies of the second draft for experimental use in classrooms in the fall of 1963. The author thanks those who participated in the classroom experiment for their comments and suggestions.

The author is especially indebted to Harvey Perloff for promoting the sequence of events that produced the most personally rewarding (and, he hopes, socially valuable) epoch in the author's academic life. He acknowledges the stimulating conversations, over coffee and under the elms of Dupont Circle, with Harvey, Lowdon Wingo, and Jack Lessinger during that most productive first year at RFF and since then. Where their ideas left off and his began, the author will never know. To Harold Barnett belongs the credit for seeing the pressing need for classroom materials in this field at the earliest possible time.

Wayne State University contributed significantly to this work by granting released time from other duties and by extending financial aid at many critical junctures. But even more important, the University freed the author to experiment with a series of courses in this new field—perhaps a little prematurely at times—ahead of the imminent respectability of "urban economics." Much of what follows took shape on the blackboard, unexpectedly if not accidentally; the author's students contributed patience as well as constructive criticism.

The author's greatest debt is to his colleague John Mattila, with whom these ideas have been discussed at various stages over too many years to remember. Many others have contributed to this very eclectic work, but the author will limit his specific acknowledgments to just three more: Edgar M. Hoover, for ideas first transferred via the printed page years ago, changing to more personal exchanges in recent years; Henry Jarrett for editing in the spirit of the writing; and David Felix, for just being a kindred spirit.

As is customary, the subtle and unobtrusive contributions of the author's wife are acknowledged last. But the last shall be first. Finally, the author acknowledges, with this evolving work, personal responsibility for the inescapable fact that Philip, Martha, and Andrew and their generation will have to live in the cities that he and his generation create.

WILBUR R. THOMPSON
Washington, D.C.

January, 1965

CONTENTS

INTRODUCTION

Already for more than two out of every three Americans, community life is city life and local government is city government; with each passing year the proportion increases. Moreover, it is the great metropolitan centers of a million or more population that seem to be the most viable and that steadily gain in share. As the United States tends more and more to be a country of very large cities, the critical national problems of growth and development, stability, greater and more equal opportunity and, ultimately, the pursuit of the "good life" become urban problems.

In this study the subject matter of urban economics has been organized in two parts. Throughout most of Part I the urban area is seen as a single local labor market—as the primary unit of employment and income generation. The performance of this "little economy" is measured and evaluated by the same three basic indexes of economic welfare that are used at the national level. Thus, we begin by focusing on the local economic goals of:

1. Affluence: expressed as a high and rising level of income, measured in money terms first but translated into real terms by taking full account not only of local differences in the cost of living but, perhaps more important, local differences in the range of goods and services available;
2. Equity: expressed as a "fair" distribution of income, considering both the distribution of earned income under a free market price system and the redistribution of income effected by local government taxes, services, and transfer payments;
3. Stability: expressed as seasonal, cyclical, and growth stability, seen as a problem both of maintaining employment and income and of achieving efficiency in the use of resources—avoiding peak congestion and off-peak idle capacity.

A full chapter is devoted to each of these three goals—or performance criteria, if a less normative term is desired—emphasizing basic determinants and processes much more heavily than policy.

But policy does enter Part I implicitly in the lengthy discussion of urban growth in Chapter 1. Few would question the identification of affluence, equity, and stability as goals of community economic welfare, but aggregate growth is more a process than a goal. In a normative context, economists can hardly be accused, at least since Malthus wrote one hundred and fifty years ago, of unquestioningly accepting an increase in total population as economic progress. And so, while much urban-regional development literature is unabashedly and indiscriminately expansionist, we view urban growth here, especially to the degree that it is controllable, as more a strategy than a goal—more a means than an end.

The fundamental normative assumption here is that the local growth rate is a lever through which desirable changes in the level, distribution, and stability of income may be achieved. Much of what we label urban problems are, in fact, undesirable rates of local growth. To grow too slowly is to invite chronic unemployment and poverty, the *symptoms* of which are slums, blight, and crime. To grow too fast is to invite the capital shortages that lead to the irritating delays and expensive congestion that can be just as damaging to the quality of urban life in the short run, as exemplified in traffic jams, and in the long run, in crowded schools on half-day sessions. Thus the opening chapter on urban growth is more than an introduction to urban growth analysis; it has the more ambitious objective of contributing to an understanding of the nature of the principal instrument—the key "controllable variable"—in the hands of local government. For only by understanding the local growth process can local government hope to be even partially master of its own destiny.

The level, distribution, and stability of local income are analyzed in the spatial context of the local labor market and in the analytical framework of the "export base theory," which relates the income characteristics of the local economy to the income characteristics of those local industries that sell outside the local labor market. Simply said, high-wage export industries produce a high-income town and stable exports create a stable local economy. Some evidence is offered, moreover, that specialization in manufacturing lessens the degree of income inequality, due in part to a relatively narrow range of skills in mass production work and in part to the egalitarian influence of trade unions. In sum, the local economy is seen as the lengthened shadow of its export industries. The power of the exogenous forces with which the local economy must contend is stressed.

Although the demand for local exports is also emphasized in the growth chapter—the *current* rate of growth of an urban area is explained more by the growth rate of its export sector than any other single factor—even greater emphasis is placed on the supply side of growth, the local economy's comparative advantage in land, labor, capital, and entrepreneurship. Thus, despite the fact that the export base theory was developed as an explanation of the long-run aggregate growth of small-area economies, its explanatory power is greatest over short periods during which the export base remains relatively unchanged, such as over the business cycle, and it loses power over time as the local industrial specialization undergoes the inevitable metamorphosis of all living and growing phenomena. The very essence of long-run growth is, in fact, the transition—sometimes orderly, sometimes chaotic—of the local economy from one export base to another as the area matures in what it can do, and as rising per capita income and technological progress change what the national economy wants done. Thus the emphasis in our growth analysis is on the process by which each round of economic development leaves an industrial legacy of skills, wage rates, business services, social overhead, entrepreneurial talent, and so forth, which shapes the developmental path and constrains the policy choices of the next round. The power of endogenous forces in urban growth are heavily stressed, and there is less precedent here.

Finally, the influence of city size runs throughout Part I. Not only is city size a large question in its own right (is the higher money income associated with big cities dissipated in higher prices or enhanced even more through greater range of choice in goods and occupations?) but the tight mathematical bond between the rate of growth and total size forces us to make consistent choices extending over both variables. Clearly, an urban area cannot choose to grow but not become bigger. The complementaries and trade-offs forced on a community by virtue of this iron bond between growth and size are played through all three goals of economic development. Finally, what are the implications to the nation of a continuation of current urban growth trends, and what is the federal role in achieving a desirable system of cities?

To the extent that an urban economy is a bundle of industries in space—and it is that in part, but much more too—the national system of cities follows from the national system of industries. Huge plants built on great "internal economies of scale" assemble large labor forces and create middle size cities almost singlehandedly. High transportation costs of intermediate products, as in steel making and chemical processes, pull successive stages of production together in space, and form "industrial complexes" that create large cities. And "external economies" in the form of a well-developed set of business and professional services (finance, law, engineering, marketing, advertising, and so forth) and of social overhead (good schools, leading universities, research centers) draw the newer industries and the smaller firms to create great cities. Industry trends shape urban trends; industry analysis underlies urban analysis; national industrial planning must be coordinated with national urban planning. We cannot, therefore, design our preferred systems of industries and cities independently. Accordingly, in Part I, we move back and forth between industries and cities freely; in our export-base constructs, we regard an urban economy as a bundle of industries in space and in our "stages of growth" analyses we see it as an organic entity with a life of its own. There are elements of both at work.

Part I does not stress public policy partly because the author has not progressed in his own thinking to the point of clear prescription. Still, the analysis is oriented toward public policy. It is unrealistic to assume that the lack of an explicit comprehensive national urban policy means that the federal government has not had a powerful impact on the relative growth rates, the size distribution and the locational pattern of our system of cities. The Area Redevelopment Administration struggles to lure plants to depressed areas; the Department of Defense opens and closes military installations and shifts procurement with heavy employment impacts; the Bureau of Public Roads connects or bypasses towns, thereby inducing either booms or stagnation; the Urban Renewal Administration pursues policies that directly influence the attractiveness and efficiency of central cities and indirectly shape their expectations; the National Aeronautics and Space Administration creates great research and development capabilities here and there, leading to whole new local development sequences. On balance, are we subsidizing the big or the small cities? Are we forcing a clustering or dispersion of our cities? What trade-offs among affluence, equity, and stability follow from various patterns of urban growth rates, population sizes, and locational constellations? If we are not well aware of the consequences of different courses of action and ready for strong prescriptions, surely serious study of the national interest and federal role in the system of cities is long overdue.

An *inter*urban income and employment analysis which stresses structure and process in Part I gives way in Part II to an *intra*urban analysis more heavily oriented to problems and policy. The standard problems approach is reflected in the subdivisions of this latter part: unemployment, poverty, and welfare; urban public services under political fragmentation and multilevel government; renewal, race, and sprawl; transportation and traffic. Nominally, the taxonomy is the traditional one of the "awful mess." But throughout, three basic themes are played—three deep roots of urban problems are examined: (1) The causes and consequences of poverty, (2) the neglect of the role of price, and (3) the social, economic, and political implications of great size.

Many so-called urban problems are, in one guise or another, simply symptoms of poverty. Slums are the home of the poor; the affluent flee from the poor to insulate their culture from contamination; central city budgets become unbalanced as they are left with the heavy public service needs of the poor and without the tax base of the rich; historical discrimination in education and current discrimination in the job market transform racial segregation into income inequality; a "white noose" of suburbs tightens around the central city; a growing nonwhite population crowds core-area housing, raises rents, and further impoverishes workers with the most menial jobs; inexorable growth does push back the housing line but the addition of contiguous neighborhoods to the core housing supply does not break the pattern of segregation but only enlarges the reach of the ghetto; the ghetto grows in size until its radius is great enough to shut off the slum child from any and all nonslum contacts however nominal. And downtown dies a slow death too as it becomes an island in the most dilapidated area of the city. Not just the downtown of the department store, as retailing quite logically follows its market to the suburbs, but the downtown of the theaters, museums and restaurants also languishes. The ramifications of urban poverty are far-reaching. Quite understandably, the economist exhibits a prejudice for opening a discussion of urban problems with a policy-oriented analysis of unemployment, unemployability, and welfare.

In one way or another, any comprehensive analysis of the city must resolve the role and relevance of the price system. Again, many so-called urban problems arise out of the fact that behavior is not subject to any disciplinary force such as price. This is especially true of that class of urban phenomena which are most demanding of what is usually the scarce factor—urban space. If, for example, we place too low a price on the extension of local public services and/or utility services to the sparsely populated urban fringe areas, we encourage a profligate use of space—"urban sprawl." Or if we do not charge extra for moving large private vehicles through narrow city streets at peak periods, we do not ration urban space efficiently. Thus sprawl and congestion are less "problems" in themselves than symptoms of a more basic malady—the lack of any disciplinary force, such as price, which forces individuals to bear the financial responsibility for their actions.

This is not to say that the extension of the price system to the realm of private public goods is ever easy or even often possible; the difficulties of administration are exceeded only by those of cost accounting. Still, we should always be aware that the price mechanism is a powerful control, and one not only compatible with but also indigenous to our culture (although not necessarily familiar and easily acceptable to the citizen-voter in this new context). As such the rule of price, although it may be *explicitly* rejected where inappropriate, must not be ignored.

The third major theme is far less central to economics: urban land use patterns. While urban economics is concerned with the locational patterns of all major land uses, this study emphasizes the residential land use pattern, even if this had to be at the considerable cost of slighting the treatment of industrial and commercial locational patterns. Residential patterns are emphasized because they are so critical to human resource development (antipoverty) programs and to judging the appropriate size of local government in the politically fragmented metropolitan area. As our urban areas grow to giant size, the long standing practice of residential segregation by income threatens to sever all contact between the slum dwellers and the middle- and upper-income classes. Removed from good schools and good examples, out of the main stream of American culture in a time of rapid technological change and of a need for a high level of personal achievement and adaptability, the disadvantaged fall farther and farther behind.

Further, to the extent that income-homogeneous neighborhood communities (ghettos) grow large relative to the political subdivisions of the large metropolitan areas, the latter framed in fixed boundaries, income segregation becomes institutionalized, greatly complicating fiscal transfers at the local level. To the extent that we complicate the redistribution of income by disorganizing those local public services that extend economic opportunity to the poor, we make a mockery of equal opportunity and/or invite the centralization of social welfare programs at the federal level. Certainly, the trade-off between (1) a fine-grain income mixing in our residential patterns, which would strengthen "grass roots" political democracy by matching tax base and public service needs so that small local government might also be socially responsible government, and (2) the current pattern of segregation to preserve various neighborhood amenities of communities homogeneous in income (and thereby in culture) is subtle and com-