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"IMPACT OF MORE CENTRALIZED DEVELOPMENT AND REHABILITATION"

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I. Attitudes towards Full Employment

I begin by assuming you want full employment in the Bay Area.
It has many advantages. I list a few.

- A. It will increase the welfare of workers. First, their material welfare. The idea that Americans are too affluent does not apply clearly to many of the poor and unemployed. Indeed the whole concept of an excessively affluent society which was so popular a few years ago is suddenly giving way to a society fearful for its very material survival. In between these extremes there is a moderate truth, which is that we can survive if we use our under utilized labor resource effectively.

Spiritual or moral welfare.

Work is the way that most people relate constructively to others, fulfil themselves and give meaning to their lives. Work may not be worship, but the reaction against the old Puritan ethic has gone much too far. The collapse of the Haight-Ashbury society, the collapse of a "Triple Revolution" have revealed the emptiness of the ideal of a no-work society. People out of work have limited sense of participation. High suicide rates, high crime rates and other indicators of alienation.

B. Increased employment can reduce resource use where labor is used to substitute for resources. The technological "optimism" of the 1960's went much too far, with visions of the world where no one needed to work. People forgot that this involved a hidden assumption of using more resources per worker, and resources are limited. The energy crisis, of course, has shocked us into this realization. People no longer perceive of efficiency solely in terms of output per man. Energy efficiency is also important.

Labor and energy are substitutes over a considerable range. Perception of this truth is blocked by the "fallacy of fixed coefficients" which was rampant in the 1960's and is built into many growth theories to which many are still wedded. With this fallacy jobs can only increase by chewing up more resources. Newer theories are looking for a steady state equilibrium and new factual studies are finding that labor and energy can and do substitute for each other. This usually involves the factor of capital as well. Energy and capital go together. The large durable machine that displaces labor requires a great deal of fuel.

Perception of this truth is again blocked by the "fallacy of absurd over-interpretation", for example "Do you want us all to spin like Mahatma Ghandi?" Of course the answer is no. Rather it means spending time waiting for the bus instead of carrying a car around with one everywhere. It

means walking a little more instead of riding the forklift around the warehouse. It means using more management and police in lieu of walls and fences and lots of other common sense incremental things.

- C. It saves on welfare costs which have become such a large part of government budgets.
- D. It reduces crime.

I dwell on these obvious points because many people actually want unemployment as a buffer to keep immigrants out of a region. I will not address that issue today, other than to note that the problem needs to be attacked at the national level as well as the local. In the present period of high unemployment the unemployed are already here, and I assume that those who would like to drive them away to solve the problem will have to find some indirect means of expressing that wish.

I also assume you want less pollution and less congestion in the Bay Area. Since we ruled out driving people away I assume you want less of these things per person. I ask you to accept the truism that exclusion is not birth control and a given number of people have to be accommodated, somehow, someplace. Birth control may or may not be a splendid idea. That is not the issue today.

Like King Arthur in Camelot I will now express my position in the form of several propositions.

Proposition 1: Exclusion reduces jobs.

Lemma: Exclusion reduces service.

That is, if you drive people off the land the land will neither support them nor serve them. What we do, of course, is generally to go part way, although I would say that the presidio and the watershed of East Bay mud are a good deal more than half way, and we increase the required land coefficient per person. That is what zoning is 90% about. Low density zoning is accurately described as forced land consumption.

Any irony of misperception surrounds such policies. They are perceived as means of "saving land", but in fact low density zoning forces each person to use more land, so any given population will spread out.

We have to look at the whole system and avoid the fallacy of generalizing from subsystems. Most political agitation, of course, involves the latter because we are organized politically to defend our neighborhoods rather than to consider the whole system. That's how we got into the mess we're in today. Generalizing from subsystems may be called the "fallacy of composition".

Proposition 2: Low density requires extending streets and lines.

The geometry is obvious and needn't be labored. The added costs are very great. Recent estimates from Victoria

and San Diego by Dr. Martin Stern say that cutting density in half under orderly conditions adds \$40.00 per year per dwelling unit of extra cost. Actual conditions are generally disorderly and the extra annual costs are considerably greater. Note that \$40.00 a year is the annual cost.

More than half this annual cost consists of interest because these are capital intensive services. Stern estimates the capital input for sewers at 70% of cost, water a 2% and streets 58%, utilities are very capital intensive, as private industries go and a substantial part of their capital is in their extended network of lines. Streets require the added capital complement of private cars. Private cars are extremely capital intensive compared to alternative mass transit into walking, of course.

Proposition 3: Streets and Lines create fewer jobs than most alternative investments of the same sums of money.

Here is a central point. Half the budget of some utilities goes to pay interest, even though they borrow at favorable rates. If we applied similar bookkeeping to streets and public lines you would find similar things. That is one way to perceive capital intensity.

Perception of this is blocked by what we may call the "fallacy of the immediate payroll". Construction unions are acutely aware that public works spending makes jobs - for them, for awhile. In evaluating Presidential candidates we have to ask "compared to whom?" and in evaluating investments we have to ask "compared to what?". The alternative to investing in urban sprawl is to invest in the less monumental

more modest business of developing and utilizing and rehabilitating the privately owned land in the older existing city.

The problem here is to recognize that this really is the alternative. We are conditioned to think of investment funds as pouring from some cornucopia. Keyensian economics, with its notion of unfructified saving and an infinite pool of liquidity, has this thinking built into its models and mechanisms. Nowadays people are realizing that if this was ever true, which I doubt, it is not true now. Investment A precludes investment B. Capital is a real fund of real goods, which is allocated by spending. There is only so much to go round at any given time. More capital poured into highway extensions and capital intensive suburban housing financed at low rates of interest under Federal programs means less money available for maintaining and replacing and recycling the central core of the city.

One locality, it is true, can import capital from elsewhere. From the national viewpoint this is a zero sum gain, of course. From the local viewpoint it is possible within limits. However, these limits are set by credit ratings in large measure. When the State of California uses its credit rating to finance monumental public works and when its municipalities do the same thing they reduce what is available for other purposes.

The dominant thinking of the recent past has been geared to "the capital intensive city". We need to shift to the "labor intensive city".

Proposition 4. Long hauls use energy and pollute the air.

Motor gas, of course, is the biggest factor involved here. In addition, Roger Bezdek and Bruce Hannon in "Energy, Man-Power and the Highway Trust Fund" August 1974 Science Magazine, point out that the production of highways is also energy intensive. A step beyond this, note that the production of energy is extremely capital intensive as industries go.

Proposition 5. Labor consumes capital in return for reproducing capital.

Now we are getting into difficult terrain but by virtue of its difficulty the importance of understanding it is that much greater. The difficulty is not inherent in the subject matter but in the failure of the intellectual world to clarify it.

John Stuart Mill clarified a great deal of it when he said "Capital is maintained from age to age, not by preservation but by perpetual reproduction." Financially speaking, capital maintains itself in the sense that the payback of principal is used to create new capital, thus maintaining the total amount in existence.

This process of perpetual reproduction involves labor, and the faster reproduction takes place the more labor is associated with any given fund of capital. Investment makes payrolls, but most investment is not the net investment of new savings, it is re-investment, the payback from existing

capital.

Heavy capital, like that we have been discussing, means slow payback. Public capital often means no payback at all. No payback, no payroll. Or, in the more usual case, let us summarize proposition 5 in this way:

"Paybacks deferred are payrolls denied".

If it weren't for this, capital intensity would be no problem to labor, because labor produces capital. The point is, though, that most employment involves reproducing capital.

Perception of this truth is blocked by the thought that there is something inherently evil and anti-social about things which yield back their service quickly because they tend to be less durable, but again we must ask "Compared to what?" Most of the things involved in rehabilitating the central city such as recycling old dwellings by fixing them up, require investments of less durability than the heavy infrastructure involved in converting farmland into urban use.

Those controversial highrise buildings occupy an immediate position in this evaluation. They are capital intensive in and of themselves as a subsystem, but viewing their role in the total system they may be less capital intensive than one alternative, which is extending the city further into the farmland. On the other hand there are less capital intensive alternatives involved in low-rise apartments and rehabilitation.

I will not detail the host of specific policies required to encourage recentralization. I rest my case with the observation that we may willingly forego the payrolls associated with investment in durable urban infrastructure in return for the same investment applied to rehabilitating the central city.