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METROPOLITAN RESOURCES IN A POLICY MATRIX

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In a recent article in this *Journal*, Professor Joseph Spengler asks whether the megalopolis is a waster or conserver of resources.¹ Focusing on the time/space relationship, he argues that larger cities are wasters of resources. The basis of his position is that "time is of coordinate importance with space"² and that as space becomes less available the marginal productivity of discretionary time also becomes less. The social system subsidizes agglomeration and thus higher densities while blurring its costs. In effect, a subsidy to density is a tax on discretionary time. In turn, Spengler argues that higher densities bring forth higher resource expenditures to offset the effects of crowding.

The picture of cities as resource wasters runs contrary to long accepted economic theories of urbanization. Adam Smith pointed out that cities, in providing centralized markets and areas of concentrated demand, developed commerce and manufacturing and increased the economic well-being of the entire country.³ The externalities afforded by the agglomeration of economic activity in cities was taken to be the result of greater efficiency in the use of resources. Losch argued that without external economies of agglomeration, and with transportation costs, economic activity would tend to be spread over the entire landscape. The very fact that nodes or cities did exist was evidence that for certain economic activities externalities offered by agglomeration were important enough to permit profitability despite possibly greater transportation costs to markets. The city was an economizer of resources because of chronic externalities which promoted and occurred along with industrialization.⁴

Recent articles, Spengler's among them, question whether we have in fact reached a point in our larger cities where the disecono-

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1. J. Spengler, *Megalopolis: Resource Conserver or Resource Waster?*, 7 *Natural Resources J.* 377 (1967).

2. *Id.* at 383.

3. A. Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* 373-96, New York: Random House (Cannan ed. 1937).

4. A. Losch, *The Economics of Location*, translated by William H. Woglom, New Haven: Yale University Press, 1954, Part II.

mies associated with existent or continued agglomeration outweigh possible economies.⁵ An implication of this argument is that there does exist a range of city sizes which are consistent with efficient allocation of economic resources. Though Professor Spengler raises the question of optimum city size he chooses, perhaps wisely, to address himself to other questions than city size definitions and measurement. Having argued that growth in city size results in increasing costs from governmental mismanagement, density and other factors, Professor Spengler suggests that there is a trend towards decreasing optimum manufacturing plant size, which, with improvements in systems of communication and relative decline in importance of manufacturing, may provide the rationale for smaller sized cities.

In framing a policy promoting this more rational urban growth direction, Spengler points out that the majority of urban growth-affecting decisions are made by individual decisionmakers concerned with making economic profits, and unconcerned with net social benefits, and that private business investment decisions are the most strategic and powerful of these decisions. Following this premise, a tax policy which imposes sufficient burden on "business undertakings to insure their continued self-renewal" and the imposition of "city-supporting taxes at progressing higher rates when cities exceed a stipulated size"⁶ is suggested to aid rational city growth.

These policy proposals have weaknesses—those associated with defining the locus of the taxes, the concept that taxes can be effectively used as penalty instruments, and the implication that regional development strategies depend on tax-expenditures for effectuation.

Tax locus definitional problems are endemic in metropolized America.⁷ A transaction in which the situs of the owner(s) is not necessarily the same as the situs of the buyer or the situs of the goods—three locations can be involved in each transaction—results in tax locus questions. When this occurs, as it does in multi-plant corporations as well as in agglomerated urban areas which have out-run their traditional boundaries, an equitable tax system is extraordinarily elusive. If the tax is imposed by the largest geographic area, then equity of revenue distribution is the concern. If the tax is

5. H. Jarrett, ed., *Environmental Quality in a Growing Economy*, Baltimore: The Johns Hopkins Press, 1966, *passim*.

6. Spengler, *op. cit.* at 395.

7. G. Break, *Intergovernmental Fiscal Relations in the United States*, Washington: The Brookings Institution, 1967, Chapter 2.

imposed at the lowest unit level—the city or village—then valuation (base definition) problems are rampant. That there is probably some tradeoff between distribution of revenue problems and valuation problems hardly is helpful, for Spengler's scheme has as its purpose the taxing of enterprises in specific locations by a higher level of government and this would involve both valuation and distribution questions for which there appear to be no satisfactory answers.

Secondly, taxes may not be effective penalty instruments. In addition to the distinct possibility of tax exporting if Spengler's proposal becomes tax law, the social acceptance of a tax proposal is necessary for legislative approval and there is little current evidence that an explicit tax penalty system is acceptable. When New York decided to clean its waters, it did not tax the polluters out of existence but subsidized the construction of water purifying plants. Nor are there any serious attempts to use taxes to control slums, destroy vermin, eradicate disease, prevent fire hazards, control population growth, stop air pollution, or prevent land disfiguration. Moreover, rather than tax increases in present highway use, highways being complementary with higher densities, more highways are constructed. Health improvements are not provided by taxing those objects and activities (slums, bad food, pollution) which aggravate poor health but by providing health complements like hospitals, doctors and medicines. Thus, taxes as penalty instruments may not be an effective proposal for regional policy.⁸

Alternative economic tools for regional development planning are illustrated by the Matrix of Regional Policy Tools. The matrix was culled from the literature on regional economic planning. As far as we can tell there are no empty cells. The columns are Aids to Industry and Aids to Infrastructure; the rows are Aids From Reductions in Treasury Receipts, Increases in Treasury Disbursements, and from Quasi-Public Agencies. The six boxes are illustrated within the matrix.

Treasury reductions in receipts to aid regional economic development (boxes 1 and 2) are used in numerous areas, both foreign and domestic. Some of the aids are to industry (tax forgiveness on site development improvements, box 1) and some are tax writeoffs to industry if they provide specified infrastructural improvements (tax decreases for industries who improve slum housing, box 2). Boxes 3

8. The evidence is of two kinds—the lack of evidence in this country that ordinary taxes significantly enter industry location decisions and the small results from penalty taxes on locations of plants in other countries.

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Increases in Treasury Disbursements Grant Interest General Loan Direct Insured Deposit Purchase Sell Lease Rent Use	1=site 2=building 3=ownership 4=equipment 5=materials 6=labor 7=working capital 8=transport prices 9=moving costs, personal 10=moving costs, equipment 11=output 12=exports 13=imports 14=technical advice 15=research																																																																	
	a=highways b=hospitals c=schools d=job training e=housing f=water g=sewers																																																																	
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and 4 are increases in treasury disbursements, e.g. loans, guarantees, grants, and purchases. The direct treasury disbursements to industry could be as guaranteed loans for site development costs, direct loans at lower than private market rates, long term leases of equipment, purchase of ownership shares in the industry, or technical advice towards managerial improvements (box 3). None of these need involve any permanent expenditure by government—some do not involve even a temporary use of funds.⁹ Boxes 5 and 6 are the quasi-governmental agents—the industrial development group in the

9. The infrastructure can also be financed, at least in part, with temporary disbursements from the treasury. Certainly some of the public services in the functional areas of health, highways, higher education, future welfare (social security), housing, water sewers, and job training are presently provided through such tools.

Chamber of Commerce, for example, and the Community Chest (box 6) for another example.

Which boxes are most important cannot be decided at this juncture. In terms of present structure nearly every community uses boxes 5 and 6 (there are over 20,000 industrial development groups for example), three dozen states permit the use of box 1 tools, ARA-EDA uses boxes 3 and 4, and a recent proposal in New York (S 4838) permits the use of box 2 tools.

The problems of metropolitan areas are resource mismanagement, as Spengler indicates, but his solutions are oversimplified. There are many tools and none need be disregarded. Only careful hypothesis testing can indicate which tools are to be used.