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REFLECTIONS ON FINANCING GOVERNMENTAL FUNCTIONS OF THE METROPOLIS

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METROPOLITAN areas are essentially romantic and not rational. Men and women like to live in congestion—perhaps realizing the truth of Jane Addams' aphorism "Between congestion and stagnation, choose congestion every time." Congestion can be creative.

Big buildings group themselves around centers because they are "good addresses". In pre-Inca cities of Peru men sought to dwell and be buried as close to the Temple of Pachacamac as they could. The Farmers Loan and Trust tower on Wall Street would have been far more economic if it had been spread three blocks along the ground instead of three blocks up in the air. But when it was built, financial salvation and merit depended on being as close to the corner of Broad and Wall Streets as possible. In the uncivilized Middle Ages, of course, romanticism was frank. Cities had to show their respect for God by assuring that the tower of the cathedral or basilica was the dominating fact—to which we owe the poignant beauty of Paris and Chartres. We think we know better now. Actually, while the premises of the romance are different, we are working on instincts like those of the ancestors of my South American friends.

I am not objecting to this. Max Weber observed that if life were wholly rational it would be intolerable. For better or worse, this is what American city dwellers did want and do want. Some day, they may want the spire of the cathedral more than the tower of the automobile or soap company or even a bank.

At all events, Americans want their cities and choose to live in metropolitan areas, romantic or not. This is where we begin.

I

Financial problems of metropolitan government in the United States are approaching a crisis phase. Since cities, towns and counties are created by and are legal dependencies of state governments, the problems arrive, crying for attention, in state capitals. There they are received as singularly unwelcome guests. Few, if any, states have really coped with them. In a number of situations—for example, Michigan—stop-gap solutions have been arranged. Governor Brown of California (a Democrat) and Governor Rockefeller of New York (a Republican) have provided tax-base and local-aid solutions which should take care of the questions for a few years. (Public approval of courageous political action in each case suggests that the man-in-the-street has more common sense than the politicians who claim to represent him.) The basic questions nevertheless have yet to be attacked and solved. We are still working in a framework of history rather than of current economics.

My thesis is that metropolitan areas are now an integral part of the national economy. Their debt structure should be "assumed", taken over and made a specific category of federal, guaranteed indebtedness somewhat along the lines of the federal guarantee of housing bonds. Specific apportionment of charges for services and of certain municipal and local government revenues should be set aside to service these bonds, with specific allocation where deemed desirable of federal subsidies in certain respects. Grandiose as this sounds, it is little more than a rationalization of the system emerging now.

The metropolis in the United States is a social and demographic fact, but not a legal or government entity. At its center is a large city. Around this are grouped other cities, towns or areas, inhabited by people whose lives are dominated by the heart city, of which they are not residents. Population groupings bear little relation to the legal units of government, whose origins are historical. In the Boston area, the heart city is relatively small, but is the nucleus of a great aggregation of contiguous cities and towns forming a solidly urbanized area of several millions. The New York area is in similar position, though the city of New York is relatively larger, and the urbanized area includes a substantial part of northern New Jersey and extends into Connecticut. Los Angeles has a very large area under one municipal government, spilling over into adjacent areas, though without encountering a state line. The Chicago aggregate already begins to push toward the borders of Wisconsin and Indiana.

These aggregates require, and increasingly have, organizations of service common to the entire area. There is no single governmental unit, as a rule, capable of coping with many of the problems of the aggregate.

Neither do existing government organisms express or cope with the microcosms of small neighborhoods. Cities the size of New York, Chicago or Los Angeles are abstractions. They are too big to mean much to individuals. Yet cities, even when metropolitan, are basically places where people dwell, marry, bring up children, make and live in homes, among friends and in small circles. Individual life is made up of relationships with a few dozen to a few hundred people. A metropolitan city is not a community. Your community is a group of friends and associates, ideally having some localized center. In New York one thinks of Washington Square, Gramercy Park, Brooklyn Heights, Greenpoint, Kew Gardens, or Far Rockaway. If personal responsibility exists for surroundings, manners, behavior of children, civilized living, it chiefly resides in these smaller units, as everyone familiar with the life of a city knows.

These neighborhoods also exist as social rather than governmental facts. They fight a rear-guard action to maintain themselves against both the best and the worst demands of the metropolitan aggregate. They may be wrecked by improvement such as main thoroughfares or by deterioration such as failure to provide for decent recreation and police protection. My private Utopia suggests that cities be reorganized to give political structure to thousands of small units as well as governmental structure providing for services common to the great aggregate. Gilbert Chesterton's fantasy of a London divided into kingdoms of Bayswater, Notting Hill and similar small units ("The Napoleon of Notting Hill") appeals to me as one of the necessities of the situation though outside the scope of this paper.

Metropolitan organization as it now stands is thus unrealistic. It barely holds its own with growing population, covering larger areas, whose common necessities steadily increase. It is not even trying to maintain a framework for the intimate life in small unit communities from which personal responsibility must spring.

II

The *per capita* costs of operating metropoli increase with their size. This is not to say that *per capita* cost of living, taxes and charges included, necessarily increases as cities grow, though I believe that also to be true. Gregarious mass symbiosis of human beings appears to be expensive—more expensive than life in sparsely settled areas, though I know of no economic study settling the point. One fact nevertheless is clear. When great masses of people elect to live together in metropolitan areas, a large part of personal expenses which might otherwise be contracted and paid for privately is transferred to the public sector. More of the services men need have to be provided by the metropolitan organization—and cannot be otherwise provided. These must be paid for out of some common fund, through taxes or their equivalent, and from borrowed money, resting on the entire population group.

There is, I think, no escape from this. It provides one of the major problems. One of the large, single expense items of living in the metropolis of New York is the charges collected directly or indirectly through taxes or service charges from its inhabitants. *Every* individual must have police and fire protection, local transportation including roads, park and recreation facilities, sanitary services and health protection—to name only a few. Great numbers of individuals, though not all—well, perhaps all, depending on how one looks at it—must have schools, libraries, hospitals. This is only where one begins.

As metropoli grow, there is increasing necessity for the elementary services which may be called economic. Some might be provided privately but are more efficiently arranged publicly. New needs constantly arise—for example, control of pollution of air and of adjacent waters. There is always increasing demand for a higher level of many of these services. A city like New York will want not merely high schools but also municipal colleges. A metropolitan area will want all the concomitants of a high civilization—museums, recreation areas, concerts, perhaps playhouses analogous to New York's City Center.

It will also require services properly classified as "welfare". About these a great deal has been said. They are not, however, the greatest items of cost, expensive as they can be in certain areas. By common consent (sometimes grudgingly given) the metropolitan organizations must meet these problems. American civilization does not permit individuals to starve in city streets.

A third level of wants is now coming up for metropolitan attention. These are services historically rendered by private enterprise, but from which private enterprise is withdrawing. Low-rent housing is rapidly becoming a major municipal function (New York City is far and away the largest rental landlord not only in the metropolitan area but probably in the United States). A recent candidate for attention is commuting service. It is better to governmentalize such services and socialize the losses, than to do without or to risk the consequences of a price collected on a private enterprise basis. The expense must be paid for by metropolitan inhabitants through taxes or charges, whether they like it or not.

Here lies a major difficulty. Our norms of thinking lead us to believe that any expenditure we make voluntarily is wise and useful, or at least acceptable. Services rendered to us who live in the metropolis, whether we individually choose or not, are regarded as a variety of forced levy. No one thinks when he pays a tax bill (assuming that he knows he is paying it as frequently he does not) that he is paying for services directly rendered to him. He would, to be sure, indignantly demand them if they were not available—sewage disposal, for example. The citizen who will cheerfully buy an expensive car on the installment plan every year or two will complain about any municipal expense. The exact relation of the services (most of which he badly needs) to the bill he pays has never been made adequately clear.

Resistance is greatest when the beneficiaries of service are not the whole population. Families without children dislike paying school taxes. People able to pay current rents object to subsidy payments for low-rent housing. There is apt to be resistance to payments for so-called "welfare purposes". The public has not been made sufficiently conscious of the goods and services each member of it receives through the public sector—sufficiently to compel realization that these are wanted services rendered to each one as well as to others.

Let us bracket this with a conception which is just beginning to dawn. "Welfare" expenditure by a city is seen as money taken from the general public to be paid to needy or indigent individuals. The picture is always of a down-and-outer getting a free handout. Yet—any of us may ride from New York in the direction of Long Island on a Friday afternoon. Our bank accounts may be in excellent shape. But when we find ourselves bumper to bumper in traffic, stalled until the bottleneck clears, any one of us is "poor" so far as transportation is concerned. A family in Los Angeles, whatever its economic position, is "poor" when smog blankets the city for days at a time. Any one of us would be not only "poor" but desperate if sewage disposal were for a time cut off. We want welfare for ourselves—then and there. We want specific public expenditure made for our benefit.

All these services involve large public expenditure both for capital construction and for operation.

III

The historical base of metropolitan revenue and finance built on it is too well known to need repeating. Land and real estate in its component units are visible, capable of appraisal, and an easy base for taxation. But this can be carried only about so far. Sales taxes can be imposed up to a certain point. But they present tricky economic problems. Merchandise sold within a metropolitan area and taxed by local government competes with similar merchandise sold in other parts of the metropolitan complex, or outside the area. Municipal income taxes are possible. But the income tax base is already used to its collectible limit by the federal government and many states. (My own studies of a possible municipal income tax for New York City in 1934 convinced me that it would be impractical as well as unjust to try to impose it in New York.)

Finally, specific charges for some specific services can be collected: for example, water, sewage disposal and, within certain limits, transportation (as in the familiar case of bridges, tunnels, express highways).

For practical purposes all municipal revenue is derived from these four methods—the income tax class being least available.

In the period since World War II metropolitan areas have grown rather faster than total population. Desire of Americans to live in metropoli has increased. By consequence, the whole range of local government services has increased faster than the needs elsewhere. This has meant vastly increased requirements for capital plant and after that for service and maintenance. Facilities have been constructed and provided largely on credit. The aggregate of state, municipal and local debt has been multiplied about tenfold since 1945. All of this, to be sure, cannot be ascribed to metropolitan development. Yet it is not unfair to ascribe a large fraction of it to metropolitan requirements even though part of it is represented by state obligations. The New York Thruway is only in part directly ascribable to the New York metropolitan area. But, clearly, an appreciable part of that plant was made necessary by, and exists to serve, the economic requirements of the New York metropolitan area. The debt incurred shows up as Thruway revenue bonds, nearly half of them guaranteed by the state of New York. On the other hand, a large part of the interest and principal on that debt will be paid by traffic generated by the New York metropolis, however it may be reckoned in municipal statistics.

Factually, wherever a metropolis exists, the debt of the units within it has increased. Moreover, additional debt ascribable to its existence has been created by the surrounding state or states. I doubt that state governments have lost on the transaction. I venture to guess that the traffic tolls paid to the New Jersey Thruway but generated by New York City more than compensate that singularly efficient state agency for the maintenance and debt service incurred in satisfying the New York metropolitan need for a western outlet.

The debt thus incurred is a fearful and wonderful mosaic of obligation. It has grown pragmatically, without plan. At bottom are direct obligations of recognizable governmental units: the component cities, towns and possibly counties. Next come revenue bonds issued by the extraneous governmental authorities superimposed on the conventional cities and towns, and given authority to collect tolls or charges for specific service. (The Port Authority, earlier mentioned, the Triborough Bridge and Tunnel Authority, and the Transit Authority are three such agencies here.) Newer ones are being born: parking authorities, "sanitary districts", and, in some areas, school districts.

A third means of financing has been direct aid from the state or federal government. These are sums put up to assist in getting work done in accordance with state or national policy. The federal highway program is financed principally by the United States government, though it builds roads within metropolitan areas and pays the major part of their cost against matching grants. Debt created in doing this shows up in an increased aggregate of federal bonds. Both state credit and federal credit have been used to pay a portion of the cost of slum clearance and low-rent housing programs.

Credit has been available to states, local units and specific "authorities" for two reasons. One was the relative cheapness of money because of the tax exemption accorded interest on local government bonds. This made them attractive. Until 1959 interest rates on them were extremely low. This factor has recently diminished; interest rates on good municipal bonds have risen from about 2 per cent to about 3 3/4 per cent. A second, more important factor causing rapid rise in this form of debt has been, quite simply, pressing necessity for the facilities constructed.

There is no reason to assume that the tide of demand for increased metropolitan facilities and replacement of outworn plant and for corresponding financing will diminish in the foreseeable future. Few metropolitan areas will be "finished" for a long time, if ever. Even if their populations become static, the level of plant and services provided by them will rise in rough correlation to the rise in standard of living of the inhabitants—say (conservatively) 20 per cent in each decade. Fortunately, with the rise in standard of living comes an increasing capacity to pay.

IV

How this works out in terms of figures can only be guessed at without elaborate research. "Metropolitan" figures do not exist. Let us take a "case". Let us look at New York City figures: they are the most readily available. In 1957 the New York City budget was just under $2 billion. This is not too far out of line with the budget as it stood in the time of La Guardia, when it was around $900 million. Allowing for a 60-cent dollar as against the dollar of 1935, for needed increases in service, and for certain services now rendered and charged for by other agencies, it will be seen that the budget increase, though substantial, is not spectacular.

But the revenue base has changed. In 1957, $876 millions were collected in real estate taxes; $410 millions were collected in non-property taxes; $331 millions came in through state aid and $92 millions through federal aid. Other revenue of one sort or another, chiefly service charges and the like, amounted to $64 millions. The real estate contribution had dropped to less than half. It was proportionately higher ten years previously. (In all New York State local governments the real estate taxes which had been 80 per cent of the total source of current revenue in 1947 had dropped to 48 per cent in 1957.) I have no figures for Chicago, but am told the same trend is observable there.

Another fact is that we are within sight of the limit of borrowing. I do not mean constitutional debt limits which are the subject of discussion now. The real limitation is not legal—that could be changed. It is economic: how much income can be pledged ahead for interest and amortization without so encumbering the metropolitan revenue that it cannot adequately meet its current operating necessities? A little more than 10 per cent of the tax levy in New York City for 1949-1950 was required for debt service. Today, requirements have run up to nearly 15 per cent. This is for New York City only, and does not take account of the debt-service needs of specialized services—bridges, highways, tunnels and so forth—where revenues are already pledged.

But I do not subscribe to the idea that, even in badly governed cities, the bulk of these new credit and tax increases has been wasted. I suspect the losses from waste, graft, or bad planning are not materially greater in these public operations than in private corporations of comparable size—though there is no means of knowing. Specialized agencies as, for instance, tollways, the Port Authority, and similar bodies have developed a level of efficiency quite comparable to, say, Consolidated Edison or the American Telephone & Telegraph Company. Overhead in democratic government of course tends to be high. But Parkinson's Law is not limited to governmental units.

The real complaint lies elsewhere. Because of the irrational mosaic, burdens are distributed almost haphazardly. A large part of New York, for example, lives in Westchester and Nassau. Taxes and the credit of these units are based on collecting from residents who need schools and recreation in those places. The economic function supporting much of their population is business carried on in the heart city of New York. Taxation based on the turnover of that commerce cannot be levied by Westchester or Nassau. Westchester for years maintained parkways chiefly to give esthetic transport to outward- or inward-bound New York City residents. Governor Rockefeller recently signed the laws permitting turnover of these parkways to the state, which thus picks up a burden generated by the growth of New York City.

There are many similar situations. Thus far each community has used its taxing power and its credit to meet pressing demands as they came along. The communities have sought, and sometimes received, state or federal aid. They could not, and did not, relate the costs either to the source of the need or to the productivity from which payment must ultimately come. Surveying the scene, one cannot escape a certain surprise that the job has been done at all, though many would agree it has not been too well done. Few, nevertheless, would contemplate the situation with satisfaction. New York, for example, has done some things amazingly well: the Triborough Bridge, the 34th Street Tunnel, the Battery Tunnel, the rising Narrows-Verrazano Bridge. But Bellevue Hospital is a classic antique some of whose conditions approach scandal. A specialized agency (the Triborough Bridge and Tunnel Authority) could accumulate enough money from transportation to build the Coliseum. Commuting traffic is in a mess, and the city could not arrange to find the $100 million needed to make the physical Bellevue Hospital the equal of its medical reputation. Parkway exits and entrances for automobiles are the equal of any in the world. But the metropolis has made only a dent on the slum housing of Harlem. Depreciation and decay are the rule in some sections; splendid achievement in others. How can the balance be struck?

V

Realist analysis must also take account of one cardinal fact. The economics of metropolitan areas enter the federal complex and affect federal revenue as deeply as they affect local or state conditions.

These areas live in and on, they support and are supported by, an economy which is national. National economy is in large measure dependent upon the production of, or the markets contained in, metropolitan areas. Finance, whether in the form of current revenue or of borrowing based on it, must inevitably reflect this situation.

The rationale is elementary. Depending on how you score it, between 20 per cent and 30 per cent of the population of the United States is comprehended within metropolitan areas. (The forthcoming census will provide a basis for more exact calculation. But the order of magnitude is not likely to be changed.) More important, though still less possible to calculate statistically, is the proportion of gross national product generated within these areas. I should guess it to be substantially larger than the proportion of national population contained in them. The New York and Chicago metropolitan areas, for example, are not local but "national" markets. They are not local but national suppliers. Their contribution to production is on a national scale. On the income derived from them the federal government relies for its chief revenue base. Revenue collected from them is distributed in turn throughout the entire United States. The capital needs as well as the resources of the metropolitan areas result from this economic activity as well as from the needs for public services of the 40 or 50 millions of Americans who live in them.

This fact has endless connotations, of which some are apposite here. Local expenditures, financed by current revenue or by borrowing, furnish an essential part and a substantial proportion of the capital plant furnished the national productive-distributive machine by public-sector operation. To assign these as "local expenditures" simply indulges an inaccurate historical stereotype. The federal government and its beneficiaries (as, for example, the state of Alabama, largely financed by federal grants) are as dependent on operations based on adequate public-sector plant and maintenance expenditures in the New York-Chicago-Detroit-Los Angeles areas as are New Yorkers, Chicagoans, Detroiters and Californians. The higher the income of these areas, the greater the revenue of the federal government.

Under these circumstances, the factor of "local responsibility" in such situations becomes partly a matter of myth.

Finally, we are reaching a point both in our economy and in our civilization at which neither the federal government nor the American economy as a whole can afford the expense and damage if metropolitan areas fail in their productive function. Demonstrably, both the federal government as a government will be poorer and the national economy will falter, and a great many nonmetropolitan Americans will be in difficulties whenever the level of metropolitan activity either in buying or producing and selling appreciably diminishes. Maintenance and increase of that level of economic activity turn in substantial part on maintenance and improvement of physical plant for, and continuous operation of, essential public-sector functions within these amorphous areas. Consequently I see no escape from the conclusion that a large and growing factor of both federal interest and responsibility is already firmly imbedded in the metropolitan complexes. Metropolitan finances will sooner or later have to take account of the situation.

Conceivably, the entire tax fabric of the United States might be overhauled, its design reworked and its bases sorted out. In some improbable world, assignment of tax bases and burdens (with consequent credit facilities based on revenue) accurately corresponding to each element of local, metropolitan, state and federal productivity might be arranged. But there is no visible probability that anything of the sort will happen. Indeed there is no certainty that any accurate imposition of tax burdens respectively on local, metropolitan, state or national productivity could be worked out at all even if the attempt were made. The only practical line is, therefore, in the direction of greater assumption of responsibility by the federal government.

We may feel that we do not like this. We may wish the American economy were not being scrambled into a national complex. But we know the fact is otherwise. The nineteenth century is implacably receding into history.

VI

I do not wish to convert you to my own theories of futurist economics. But I do think there is a possibility of snatching opportunity from difficulty. I state three propositions:

First. We are beginning to learn that a modern economy cannot continue running at the rate of productivity and speed needed to keep it above water unless a substantial margin is devoted to ends which we call "altruistic"—over and above calculations of personal profit or advantage. This, for example, is why the state of Utah has had a brilliant economic history, while that of the comparable state of Nevada is far less inspiring. The great metropolitan areas offer golden opportunities for just this kind of activity—indeed their organization almost compels such economics. It is not accident that the communities which have existed or exist alongside of great altruistic neighbors such as great universities, great museums, or great churches are commonly far more prosperous than those which do not.

The corollary of this, however, is that these altruistic activities —now seen not to be a net cost but a net support and accretion— have to do with the economy of the entire United States. Like the keystone of an arch, they both hold and are held. They take in and they feed out, and their line has gone out to the entire country. "Federal aid" is not a local enterprise; properly handled in the great metropolitan areas, it is a solid support for a large part of the American economy.

Second. We are coming to learn that a metropolitan area is not a congeries of unrelated items. It is a great mass, tremendously productive when it is turning over as it is tremendously destructive when it falters or declines in activity. Peculiarly in metropolitan areas no living economist can calculate when any living enterprise in it is, by itself, productive. That is, no one can tell whether any given real estate operation, office building, department store, parking lot, or other enterprise of itself is "productive". Even the highly profitable enterprise in terms of income to its owners may, if all costs are taken into account, be a net loss to the whole area. Money is made on strategic position within the whole organism. It is almost impossible to tell, for example, whether the new Grand Central development in New York or equivalent developments in Chicago or Los Angeles have not cost the entire community more than they will pay back, though it is highly probable that they will yield profit to their owners. No analysis of this kind has yet been made; it involves social accounting.

In the long run, I submit we cannot ignore these two facts. Sooner or later the entire economics of metropolitan areas must be overhauled, examined in the light of the new premises and redone on the basis of realities.

Third. There is now no way of disentangling the revenue and credit economics of metropolitan areas from those of the state and federal governments. They are already inextricably mixed. This is why the federal and state governments have entered and will increasingly enter the metropolitan picture through state aid, direct subsidies of particular activities and credit guarantees.

Consequently the time has almost come for a federal local-government "Assumption Act", analogous to Alexander Hamilton's famous act assuming the war obligations of the Thirteen Colonies after the Constitution was adopted. This would mean, in substance, that a system should be constructed by which the credit and credit needs of local governments, including metropolitan areas, will be provided for through federally guaranteed bonds. Where necessary, federal aid may assist financing metropolitan needs—as, in fact, it does at present in a wholly hit-or-miss way.

Many of the elements of such a system indeed are in actual operation now. Federal bonds today build substantial elements of metropolitan highways. Federal aid guarantees housing construction bonds and subsidized slum clearance. On the other hand, a surprisingly large percentage of federal revenue is based on the income from and turnover of commerce generated in the great metropolitan areas, leaving all too narrow a tax base for these localities.

It is time we recognized realities.

REMARKS BY THE CHAIRMAN

Chairman Alexander: As you expected, Mr. Berle is full of ideas about the past and about the future, and as he so delightfully goes along, he drops his little bombs here and there. Some of them are pretty hot, but they are always interesting. Thank you very much, Mr. Berle, for your very stimulating remarks.