PUBLIC POLICY IN THE UNITED STATES AND THE FATE OF THE CITIES,

A Case of Disjointed Incrementalism Manipulated by Rent-Seekers

By Edward J. Dodson, Cherry Hill, NJ

An important and legitimate question to be addressed by those of us who champion the expansion of individual liberty in our economic system is whether "the community" ought to have the power to control and direct development. We need to have a serious discussion over where the property rights of the individual end and responsibilities to the community begin. Without this type of focus on underlying principles, little that is good and much that is bad becomes law or public policy.

For much of the history of the United States there was little interference in the investment decisions made by individuals and corporations (acknowledging, however, that the law was frequently an instrument for granting monopoly privileges to the well-connected and financially generous few). Major disasters, such as the great fire that destroyed much of Chicago in the early 19th century, as well as epidemics that spread through immigrant populations forced to live in the squalor of city tenements, generated sufficient citizen protest and aroused leadership for new restrictions on "the propertied." The huge increase in population and the migration of millions of people into previously empty parts of the country were accompanied by a new emphasis on planned development. Cities and towns adopted laws that restricted what types of development could occur where, how tall or wide buildings had to be or could be, the types of materials permitted in construction, whether elevators and how many were required, the number of entrances and exits, etc. etc. etc. Some of these restrictions addressed the community's concern over external appearance and the preservation of "harmony" with the rest of the structures. Some of these restrictions addressed the community's concern over fire and other safety hazards. And, some were extremely shortsighted and contributed to the destruction of those elements that have created a sense of community in the first place.

The early settlements that grew in size to become villages, then towns, then cities, served as entry points to an expanding agricultural region; or, in the case of some towns along the ocean coasts, ports for fleets of ships who took fish from the rich waters. Wealthier farmers, who could afford to hire an overseer and a labor force to work the land, owned town homes in the city. Merchants and financiers who served the people in these regions built their great houses in the center of the city, to be close to the action. The cities were, indeed, places where people lived, worked and played. The livability of cities began to deteriorate dramatically with the establishment of industries dependent upon fossil fuels. Those who could afford to do so moved their families to the first ring of suburban enclaves that slowly emerged everywhere, fostered by the construction of rail lines and eventually electric trolleys. Most workers continued to live within a short commuting distance to the factories, enduring polluted air and water, poor sanitation and few laws to protect them from all sorts of attacks by "the propertied." People of different ethnic, racial and religious backgrounds continued to work together in the financial district and in the factories, even as the neighborhoods in which they lived evolved into self-enclosed enclaves of housing, shops, recreation and entertainment. A relatively small number of "Anglofied" hyphenated Americans bought their way into the suburbs, mostly forming new enclaves with "their own kind" surrounded by the White, Anglo-American, Protestant majority. As we know, all this began to change rapidly after the end of the Second World War. The war created a full-employment economy, allowed people to save as never before and resulted in legislation, particularly the G.I. Bill and guarantees of long-term mortgage loans by the Federal Housing Administration.

It is worth noting that the older parts of many cities -- constructed of brick and stone (either before or after Chicago burned to the ground) -- remained physically intact well into the 1950s. For the one or two readers who are too young to have lived through what might be called the "era of deconstruction," I can quickly summarize what then occurred as a confluence of four distinct but equally destructive forces: political corruption, rent-seeking investment strategies, monument building by civic leaders and the commitment by expert planners to social engineering through renewal of the physical environment. The end result was that by the mid-1970s most the cities and many of the smaller towns in the United States were in ruin. Large portions of cities such as Detroit and Philadelphia looked from the air as though they had experienced massive bombing raids.

Americans were everywhere on the move. New suburban rings blossomed at the expense of productive agricultural use. The Federal government provided fuel for the process by the construction of new highway systems linking and criss-crossing the large cities, converting the meaning of distance from mileage to time (with the unforeseen consequence that once hundreds of thousands of households occupied the suburbs and were using the highways to commute from home to work and back these roadways became frequently congested generators of air pollution, lost productivity and -- more recently -- the source of stress, rage and crime).

There is no question that much of the housing stock built during the late 1800s and early 1900s for workers should never have survived more than 30 or 40 years. These buildings were constructed without any real concern for the

(continued on page 11)

PUBLIC POLICY (continued from page 10)

well being of the occupants. Those that continue to stand provide a low quality of shelter at enormous cost to the occupants. Collectively, they consist of street after street of monotonous dwellings constructed at densities and in street patterns that inherently reduce the potential for community amenities. And yet, as businesses abandoned these neighborhoods, and for a growing segment of the population household incomes fell lower and lower, these already-aged housing units were all that were available. Houses most in need of repairs and renovation were being turned over to occupants with incomes far too low to meet the financial demands of ownership. Other properties were acquired by people for "investment" purposes, who divided them into as many apartments as possible, charged as much rent as possible, made as few repairs as possible, and milked the properties for cash flow until the community finally condemned the property, evicted the tenants and left the property to rot (or burn). Elsewhere, whole sections of communities were condemned and torn down so that the new highway system could be expanded to route automobiles through city neighborhoods without having to stop at intersections or slow down to avoid pedestrians. The displaced populations were warehoused in new but poorly-designed high-rise buildings in locations where there were few, if any, stores, schools, playgrounds, libraries, clinics or employers. The four architects of deconstruction satisfied themselves that out of sight and out of mind meant the problems did not exist.

All of this was not cheap. Government taxed and borrowed and spent hundreds of billions of dollars destroying the cities. Some nice monuments replaced entire communities. Sports stadiums, with asphalt parking lots extending out in all directions, covered the landscape, with entrance ramps to the highways constructed so that suburban patrons would be minimally exposed to any urban life forms that might remain in the area. An hour or so after the end of whatever events take place, the entire area returns to its "dead zone" state. The economic result was equivalent to reducing the supply of land available for development, while creating a situation where the city (as owner of the stadium or stadiums) has absorbed the cost to construct (and foregone the collection of taxes levied on market location rent) without the option of leasing the facility to the highest bidders. The professional teams who will infrequently perform in the stadiums are not similarly constrained; their leagues always make sure there are more cities with stadiums looking for teams than teams looking for cities with stadiums.

Fortunately, this is not the end of the story. People who lived in neighborhoods finally took a stand against the four architects of deconstruction; they formed community-based organizations; they elected people from their own ranks to city councils (sometimes with unforeseen consequences); they formed alliances and managed to save some of what remained that was good, or at least potentially good, if funds could be found for restoration. Neighborhoods located near rivers and lakes and museums or that had historic buildings gradually started to attract new residents.

First came the "urban pioneers." Once they began to improve properties and demonstrate a market existed, they were followed by individuals who purchased one or two empty shells to renovate (and lease to renters for a few years waiting for prices to climb, or sell right away so they could go on to the next property). With this type of activity occurring, serious rent-seeking speculators were attracted in, who acquired shells and vacant lots to sit on for one, two or ten years while others invested in the neighborhoods.

In the earliest phase of resurrection, land values were often less than zero and no one would even take land free of charge because of expenses for taxes and insurance. This soon changed, however, so that a house could be constructed on a vacant lot and sold for a price that gave the builder a reasonable profit, while allowing a purchaser of moderate means to afford the house. A few community-based organizations managed to acquire the skills and sources of financing to develop properties without the need to make a profit, so that these houses could be sold to lower income buyers. As land prices escalated, this happy balance disappeared. Only higher income professionals could pay the market price for a new or newly-renovated property. Lower income renters were the first to depart; then, property tax increases forced owners on fixed incomes to sell out. These groups generally moved to neighborhoods still in decline -- coming for already scarce housing units and driving up rents even for housing that was barely adequate. The neighborhoods experiencing the infusion of financial resources were becoming "gentrified," and with the higher income residents came new restaurants and shops and other amenities (including public goods). Here and there, to preserve affordability and some degree of economic diversity, the cities would acquire a few properties at market value, pay the cost for new construction or renovation and sell the completed properties at far below market value to lower income households. These homeowners might receive long-term tax abatements or reductions in return for a commitment to remain in the house for some period, say 10 or 15 years. More wins for the land speculators, to be sure. Some cities have responded to concerns over gentrification by capping any increases in property taxes for long-term residents, which has its own set of inequities as a public policy but is politically popular.

Outside of the areas where gentrification occurred based on proximity to the amenities of the central city, revitalization efforts have depended almost entirely on the collaboration of a new generation of community development corporations, public agencies and financial institutions

(continued on page 12)

PUBLIC POLICY (continued from page 11)

(initially pressured by external groups but more and more on the basis of longer-term business interests). In areas where land values remain very low, properties cannot be constructed or renovated and sold at a price that recovers out-of-pocket costs. Up front subsidies are required; however, in cities all across the United States, the amount of subsidy required falls to almost zero as areas are rebuilt and municipal services improved (or even introduced). By and large, this is how cities are attempting to respond to the extensive amount of blight that remains and the continued decline in population some cities and towns are experiencing.

Back in the 1950s, John Kenneth Galbraith suggested that the United States had reached a stage of political and economic maturity, characterized by countervailing powers (i.e., big business, big government and big labor). Much has happened since then; and, in truth, power is now shared with two additional well-funded and well-organized sectors -- the community groups and the foundations from which the community groups obtain much of their funding. People committed to planning have also learned a few things about the consequences of running down the road at high speed in the wrong direction. High-rise, low-income housing is coming down in almost every city, to be replaced by town homes and a mixture of home ownership and rentals -- with space allocated for amenities such as learning centers, daycare facilities and grocery stores. Most plans are implemented only after a much more inclusive and deliberative process. The idea and ideal of "community" and a concern for human scale are now integral concerns addressed.

Are we at the end of the era of deconstruction? Is disjointed incrementalism on its last legs? Let us hope so. I am cautiously optimistic. My own work in the affordable housing and community development arena brings me to the table with many of the people who are working -- with a more holistic vision than ever before -- on the resurrection of community as the essence of not just where but how people need to live in order to thrive. When I talk to them about the land market and about the critical importance of taxation as public policy, I am finding an increasingly receptive audience.