

# The Urban Community

IN the continuing urban economics lecture series at New York headquarters, labor, capital, private management and government are next to come under review. Paul Sultan, Professor of Economics at Claremont Graduate School and University Center, Claremont, California, speaking of the first, said labor is concentrated mostly in the urban center and the labor problem is the problem of unemployment, for if labor was fully paid and employed there would be no problem. Classic economists saw productivity as a contest between the growth of capital and the growth of labor. Later in the 19th century, employability of labor was to depend on the amount of labor available. Twentieth century neoclassicism compared labor's welfare with land availability.

Henry George saw labor pressing upon land use with the increment of productivity diminished as landlords and speculators held land out of use.

According to Keynes the employability of labor must be cast against the value determined by the employability of labor. He advocated controlling the money flow by manipulating the printing press. "It's old hat to say that we're all Keynesians now," said Professor Sultan. (A member of the class said demurely, "I'm not.") It should not be beyond the wit of civilization to find other options, the professor continued, but we face the realization that we have not yet demonstrated the wit to live with full employment. Classicists said you had to allow people to experience the indignities of unemployment—and part of our present policy is to accept a new form of unemployment.

Labor is no longer a homogeneous commodity. There are pockets of unemployed, and they change direction,

because of new technology. Employers have in the past been slow to respond to a downturn in demand but they have now developed an awareness of this, and recent sharp layoffs have complicated the progress of full employment. Very critical is the fact that concurrently pressure groups have responded with vigor by insisting on increases. All of us are caught up in this "acquisitive itch." Union behavior is extremely wage-conscious and the incidence of unemployment is growing increasingly uneven.

Regarding the recent price increases by General Motors, he said, better to do that than have unemployment, since raising the prices increases the profitability of hiring more labor. He regarded the cost of unemployment as irreparable.

Labor unemployment concerns chiefly the unprecedented emigration of Negro workers into the center city. Since 93 percent of blacks live in cities and only 4 percent live in the suburbs, 12 cities contain two-thirds of the black population, although city opportunities are lacking and the job explosion is taking place in the suburbs.

An ominous difficulty facing the blacks is the social cost of idleness. Strategy for generating full employment must recognize this population which includes Puerto Ricans, Indians and Mexican Americans whose condition has not improved. The administration says simply that we've got to subsidize the employers to hire the unemployables in the hard core groups. Consequently, at a meeting in Watts, representatives of industry were present and ready to consider employing blacks, but they were met with a torrent of abuse. The militant blacks regarded the offers as a patronizing posture. Not satisfied with equalization of oppor-

tunity they now want "equalization of results."

The speaker saw a desperate need for neutrals in economics. He thinks our society is pretty corrupt and if the blacks absorb our culture they won't be happy. He suggests they would do well to build an economy that would satisfy their own value structure.

In response to a question from the director of an HGS extension as to whether possession of land rent represents a very substantial monopoly, he said that George's claim about the mischief of the landowner was less valid today because the economic royalists of our time were the educated elite. There were a few smiles in the audience as he emphasized this point.

While he was admittedly a Keynesian, the speaker, referring to "the new orthodoxy," said, "once we surrender to price controls we've lost the ball park." He is not completely contemptuous of the present system though he saw all sorts of management problems. The answer, he felt, was to try to persuade people not to push requests higher, by means of public admonitions. He said he had come reluctantly to the conclusion that some sort of economic ration may be the answer in the form of an annual federal income for the 500,000 underprivileged, many of whom are women, children and old people. But he admitted it would result in widespread idleness and loss of incentive by those who would say it wasn't worth while to work.

John Herzog, Professor of Economics, Simon Fraser University, British Columbia, said in the fourth lecture in the series, that capital plays a very important role and no city can survive unless it is replenished with new infusions of it. Most economists are still consumption oriented—they view capital as the end product and individuals as existing to consume commodities.

This is the main line to which group the speaker professed to belong. Another school says the individual spending unit does not just consume, but produces and transforms through his choices.

Capital goods, as distinguished from capital value, were defined as physical assets that produce additional goods or services having consumption value—hard to summarize because of their heterogeneous nature. Capital stock was viewed as something existing over a specified time period—the longer consumptive period being preferable to a short one. If people give up present for future yield that option is called interest. People avoid risk even if the future surroundings of the capital are good, for one's own future may be uncertain. Anything that lengthens this time period increases the value of the capital.

It follows that if an individual is considering a building as a capital asset he must believe that the price he pays is less than or equal to the value of what the asset can do for him, whether he is purchasing it from another individual who owns it (a direct investment) or whether he borrows the money from a bank (an indirect investment).

Capital mobility clouds the picture if the owner hears that the assessor may increase the tax rate on the prospective purchase. He may resolve to put his capital somewhere else where he can "move it around," as in the stock market. Corporations try to keep their stocks mobile, for the more easily something can be swapped with someone else, the more liquidity there is in the asset.

Durability, the inherent value of the commodity, is related to mobility, and the most durable of all assets are buildings, since they last longer than any other asset except land. As an individual takes more and more risks he wants more and more return. There

are many investment combinations, but the set that will give the best choice for the portfolio is the one with the most diversification.

When you see a city decaying in certain areas it doesn't mean that the owners are vicious thieves. In *Progress and Poverty* there is a veiled reference to that, but in a different context. The owner of a piece of real estate with improvements realized gains on that asset brought on only by the fact of growth to which he had contributed not a thing, resulting in the feeling that society ought to tax it away.

The speaker does not see the real estate buyer being guilty of conscious greed. If a person sees opportunities in real estate he will invest. If on the other hand property may be run down so that it falls below a certain point, he will abandon it.

Unfortunately buildings *are* durable and when they have served their purpose no one will replace them. The government is then required to step in. Private developers buy up land, sometimes at a third. True, the inescapable effect on the people who have to bear the burden without the benefits is devastating.

Zoning is a device which, to be effective, must force the individual to do something or prevent him from doing something. Its direct effect is always to reduce the capital value at the site. Zoning adds to our health and safety standards, creates more harmonious neighborhoods and more rational use of land, that is, if we rule out the errors of the uninformed developers who destroy the esthetics of a community. Naturally there are all sorts of pressures from unhappy individuals who feel someone is stealing from them to give to someone else.

New York City had an urban plan as far back as 1926—has it worked? One may question whether in such a case of unlimited agglomeration the city may have gone beyond its opti-

mum size. The more intensively the city develops the more land values rise—cities grow centrally until they strangle themselves because there is no mechanism that controls the growth.

New York's population is larger than Los Angeles's but Los Angeles was never a city with a central place utility. It is rather a cluster of small cities that tend to grow together in one giant plateau resulting in the same phenomenon. The fact that Los Angeles developed late when automobiles were already in use, has had a lot to do with the form of the city.

Daniel M. Holland, Professor of Finance, Sloan School of Management, Massachusetts Institute of Technology, said that to speak of private or public management was to use obscure terms and that "urban environment" was vague also. Therefore he chose the subject, business and urban problems.

The problems could be things, activities, crime, air, water or such services as education, transportation, communication. If these now fall short of what we need, the shortage has not happened overnight. There is no magic about private business and while many urban problems are related to the social responsibility of business, business men are obligated to produce. If this causes pollution they cannot be expected to stop when to do so would cause them to fall behind their competition and lose money, for their stockholders would object. Business men operate to sell their product for more than it costs to make it. Whenever it costs them more than it costs others in competition they will find themselves not able to perform.

Under the rules of the game, business as a whole cannot exercise its responsibility to the community. The goal of non-pollution is a worthy one but we would be very disturbed if business could accomplish it alone. It is much safer if they take guidance

from the community, and the community has the responsibility to change the rules. If an air cleaning plant is required because the production of a product generates too much pollution, then this cost of air cleaning should be kept in mind by the industry. One method might be to set up ante pollution units and allow industry to deduct half the outlay in taxes.

Maintaining that labor is by far the highest cost of doing business, Professor Holland developed at length the importance of on-the-job training as the most effective method of industrial education. This is very expensive for business since only a fraction of the number of people trained may settle down and work for that company. The Department of Labor presently has contracts to cover the extra cost of hiring workers who will have to be trained. The costs are deliberately exorbitant because they have to cover, in the case of persons not geared to regular work, such simple disciplines as punctuality, as well as numerous psychic deficiencies. This creates a double standard as other workers see newly hired workers getting preferential treatment.

Those who see this process as being too slow would offer business a bribe in the form of credits or tax deductions. The speaker is one who would run the risk of inflation to create job opportunities. He admitted this is a waste of time when the jobs for which people are trained are not there, but he assumes that we know enough to create the necessary jobs.

In order for such a program to work there must be unemployment at the rate of 4 or 3½ percent, otherwise business cannot hire the less qualified person ahead of the more qualified one. At present unemployment is not high enough for the employer to be willing to hire workers that require more cost to train.

How can the community (i.e. gov-

ernment) compensate business men making it to their self-interest to hire people who have not had enough vocational training? While business firms take an active interest in community affairs, industry cannot be expected to exercise total social responsibility. It must obey the rules, and these can be changed perhaps only by requirement or inducement on the part of government.

Several questions from the class dealt with the cost of land and the fact that rent, a prime labor cost, can be disguised. These questions were not covered. "You'll be deciding fiscal and moral issues for the rest of your life," the professor said.

Robert Connery, Professor of Government, Columbia University contrasted home life half a century ago with urban life today and showed that government came late and slowly into its role as benefactor. He thinks we can solve a few of the problems of city governments and suggests that the selection of able politicians and retention of able civil servants is the first need.

Until the tremendous urban migration of the past two decades much was done in family groups. The home was a food storage place and was sometimes used for forms of manufacturing, as well as for worship, recreation, education and protection. Now he suggests it is used for few of these things and for scarcely anything but sleeping.

With the migration to the urban centers a money economy took the place of the rural one, and this placed a strain on individuals. Family ties were loosened and health problems arose from the congestion, which government has been forced to deal with.

Under the federal system of government no public assistance was provided for in the Constitution, except