

Regional Plan Association

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February 25, 1982

M E M O R A N D U M

TO: Board of Directors
Connecticut Committee
New Jersey Committee

FROM: William B. Shore
Senior Vice President

RE: National Urban Policy/Enterprise Zones Statement

A special issue of The Region's Agenda on "National Urban Policy and Enterprise Zones" is attached. It is directed to the draft 1982 Urban Policy forthcoming from the Reagan Administration, and the Enterprise Zone legislation currently in Congress. Copies are being circulated to the membership, members of Congress and the Administration and several national organizations.

Please let us know how many additional copies you can use. A reply card is enclosed or you may call Debra Roane here at the Association. We would like to make the statement available as widely as possible.

Also enclosed is a "Congressional Contacts Form." Please indicate which members of Congress or the Reagan Administration you would be willing to address personally and (1) whether you want to send a covering letter yourself on your own stationery--if so, indicate how many copies you want us to send you or (2) whether you want your letters sent on Regional Plan stationery from here--if so, send a list of names, addresses if you have them, and how you address the person.

Thanks very much.

/sbs

Reply card for additional copies of The Region's Agenda
on "National Urban Policy and Enterprise Zones."

Quantity Requested _____

Name

February 1982

REGIONAL PLAN ASSOCIATION
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Attn: Ms. Debra Roane

The Prime Policy Goal: Strong City Centers

The most effective policy to prevent further drain of population and investment from American cities, our observations and public participation programs reveal, is to make city downtowns the principal places people congregate, for office work, shopping, entertainment and the arts, higher education and health services.

Benefits of dynamic downtowns. Strong downtowns:

- Are the only way to attract people who own cars to use public transit—saving energy and supporting the mobility of old, young, poor and handicapped who cannot drive.
- Are magnets, drawing people to live near it, saving energy and precious farm and forest land and making fullest use of existing investment in buildings, roads, sewer and water lines.
- Assure opportunities for those who cannot move out of the city and bring together for at least eight hours a day the well-to-do and poor, black and white, all ethnic groups.
- Are efficient for doing business, as far as available data show. Regional Plan Association's *Regional Accounts* study identifies New York City, for example, as highly productive and profitable for business. Bringing close together corporate policy makers and their complex outside services remains highly cost-effective.
- Save energy. The Association's energy consumption study established (in 1974) that the higher the density, the lower the per capita energy use, a finding confirmed by others in several later studies.

On the surface, decentralization of jobs and services looks like replacement of inefficient old places with efficient new settlements—requiring less public investment. But replacing old cities with new settlements is not like replacing an old factory with a new one, then demolishing the old. The old cities will not be replaced and demolished; they will simply be thinned out, less efficient to operate. Collectively, millions of people will remain in them; but without the attraction of jobs and services in a lively downtown, the millions remaining will, by and large, be those who cannot leave. Even more than now, cities will be backwaters of the overlooked and unwanted, not less of a public burden but more.

Why cities can't compete despite their economic benefits. Both government and private funds would be saved and social problems ameliorated by public programs that make city downtowns immediately competitive with open countryside. Over the long run, our research suggests, they can compete without special help, but now there are extra costs making cities uncompetitive which have nothing to do with cities' inherent economic value as a business location. The extra costs result from:

- Old age. Old places are expensive to maintain just because they are old. For example, water and sewer lines are more expensive to replace than to build new on vacant land. Old transit lines are expensive for the public to maintain and repair compared to letting everyone drive to work—but not more expensive considering all the costs, private as well as public. But even if deteriorating conditions drive out a large portion of their population, cities certainly will not be totally emptied into the suburbs and countryside. So they must be maintained, expensive or not. Recentralizing activities in cities will lower the per capita cost of that maintenance.
- Social problems. Cities have been left with most of the problems of poverty, in large part as a result of national policies. Poverty is a function of the national economy, not caused by cities—yet it is now a particular burden to city economies. The costs are not just tax dollars. Some businesses have departed the cities to avoid the extra costs of affirmative action, because the unskilled and under-educated have sought out the opportunities of the cities as employment in rural areas contracted. City schools, by and large, have not had the capacity to help many of them make the transition to the new jobs available. Businesses have avoided high city crime rates caused in part by unemployment as opportunities located in the suburbs. They left the cities because of a generally low standard of amenity, resulting from cities

necessarily focusing on social problems instead of creating centers fit for the nation's leadership and cradle of its civilization.

- Archaic tax systems. The well-to-do have escaped the local costs of urban old age and social problems by simply stepping over the border, leaving the poor to support the poor.

State and Local Responsibility For Strengthening Cities

This statement is addressed to the National Urban Policy. Of course, cities and states must focus their policies similarly or the national policy cannot succeed. Particularly, states should assure more equitable tax burdens among their local governments and promulgate a state plan that shows private investors where the state will be putting its capital improvements. Cities must facilitate appropriate development and strive for an environment attractive to all income levels.

Regional Plan's Proposal for a Reagan National Urban Policy

1. Cut aid to scattered development. Recognizing that an underlying economic policy of this national Administration is cutting federal domestic spending, we ask that whatever tax breaks, investments, grants, programs and loans the federal government does make be channelled to build city economies, particularly strong downtowns, and that they stop encouraging scattered development in the open countryside, as federal policies have done in the past. Specifically, cut federal expenditures (like highway, sewer and water-line construction and maintenance) that facilitate a scattered settlement pattern; cut tax breaks that make suburbia and exurbia financially attractive (like those for new construction that exceed tax breaks for rehabilitation).

2. Fill the city cost/benefit gap. The cities do need a continuation of some of the financial help they have been getting—just enough to fill the short-run gap between the social and economic costs of city sites and those of suburban or rural sites. Urban Development Action Grants (UDAG) and the most recent Economic Development Administration (EDA) program were aimed at doing that. Private enterprise was built into each deal, setting the level of aid needed to make the city site profitable. The Reagan program to encourage investment in new business facilities should include extra gap-filling benefits for building or rehabilitating in cities. For example, a fast-depreciation program to stimulate investment should offer extra benefits for locating in a city and for rehabilitating rather than building new on vacant land.

The same kind of gap-filling is needed for some city housing. Hundreds of thousands of decent city housing units are likely to be abandoned over the next few years, and an important reason for abandonment is that the residents cannot afford to pay enough rent to properly maintain the building. Replacing these units would, of course, cost far more than the subsidy needed to assure the buildings' upkeep. Maintaining these marginal units also would avoid the neighborhood disruption that results from waves of displaced tenants impregnating other neighborhoods with the seeds of deterioration because they will not be able to support their new buildings either.

3. Public transportation and auto travel. Public transit grants—at least for capital—are needed until transportation financing generally has been rationalized, righting the overbalance toward auto travel and spread development that has resulted from past federal highway expenditures. Opening the Highway Trust Fund for public transit use at the states' discretion fits the Reagan concept of leaving more discretion to the states. That would move toward righting the auto-public transit balance.

NATIONAL URBAN POLICY & ENTERPRISE ZONES

Even if our economy were far freer of government influence, federal decisions would affect location of facilities and urban economies, deliberately or inadvertently. Furthermore, federal decisions of the past have left America's urban development distorted and inefficient. Therefore, the attention of the Administration to the congressional mandate to publish a biennial National Urban Policy is welcome.

Regional Plan Association has been planning for the nation's largest urban region since the 1920s, far longer than other regional planning organizations. Our research and pioneering public participation processes over the past quarter century have identified a national dilemma about cities: either government must intervene—modestly—to make city locations profitable for private jobs and investment or much of the tremendous existing investment already there will be wasted, while the residents must choose between living in a forgotten backwater of declining jobs and services or adding to suburban housing pressures by chasing the jobs and services outward.

4. **Infrastructure repair.** Cities and old suburbs need to repair and replace other old infrastructure, too, i.e., the extra costs of old age. New York's third water tunnel is an example. If the cities' cost gap can be filled in the ways described above so that major enterprises do locate in the cities, federal loans rather than grants may suffice.

Why should the federal government contribute to rehabilitating city infrastructure?

First, for half a century, it has been deemed a national purpose to build highways and utilities—often highly subsidized—into the countryside, inducing development outside of the cities. Throughout that period, it was not national policy to help cities repair and replace aging streets, bridges, water and sewer lines. Now, it should be national policy to right the imbalance of earlier policies by at least facilitating the financing of the tremendous capital investment the cities will need for rehabilitation. If city infrastructure is allowed to gradually collapse, with increasing malfunctioning of water and sewer lines and public transportation, closing of dangerous bridges, detours around enlarging potholes, the national economy will suffer from productivity loss in the cities and cities will lose residents and businesses even faster.

5. **Cities need relief from the financial burden of poverty programs.** Poverty is a national problem; that it is concentrated in cities is little fault of theirs. Encouraged by a distinguished advisory committee, Regional Plan Association recommended nearly 15 years ago: if the federal government assumed the full costs of income redistribution, like welfare and Medicaid, the cities could use their own dollars for truly city functions instead of running to Washington for myriad grants and loans for all sorts of local programs. To say the federal government cannot afford the full cost of the social "safety net" means that, therefore, the poorest areas of the nation must somehow afford it.

nant with Regional Plan's National Urban Policy recommendations.

However, if Enterprise Zones are limited to neighborhoods of very high unemployment, excluding city or neighborhood downtowns, they could be counterproductive by draining jobs away from city or neighborhood centers. And it is the build-up of urban centers that creates the magnetism necessary to attain the goals listed above. So, we favor Enterprise Zones as a **complement** to state and national policies that strengthen urban centers. For example, Enterprise Zones might stimulate housing improvement or draw small factories to city neighborhoods, while other programs draw offices, retailing and other services to city and neighborhood downtowns. But by themselves, Enterprise Zones would, at best, be palliatives for troubled cities and, at worst, detract from the more strategic goal of strengthening downtowns.

Our second concern about the current Enterprise Zone bill lies in its details:

1. Firms already located in cities, perhaps even adjacent to the Enterprise Zone, will be at a disadvantage; costly moves from one part of a city to another might result.
2. Firms already in the Enterprise Zone will be at a disadvantage. Only if they increase their work force in the zone by at least 10 percent will they get the benefits that a firm moving in will get.
3. Large firms, which would provide the greatest opportunity for employee mobility, are dealt out of the program by rules which make it unprofitable for them.
4. Many small firms will not have initial capital and so need additional aid.
5. The incentives may not be sufficient to overcome the economic disadvantages of defined areas.

Our third concern is about the technique used—an array of tax abatements rather than direct subsidy—which masks the true cost.

In sum, we feel that Enterprise Zones can be organized on Kemp-Garcia principles as a worthwhile element in a National Urban Policy, but some of the rules need amendment to make the zones effective, the technique should be changed to assure that we know the full costs, and the program should be seen as only one of the set of incentives needed to return American cities to a more central and prosperous role in the nation's life.

In Short

Cities can benefit as much by making it more expensive to build in scattered exurban fashion—a reflection of true cost to the nation's economy—as by making it less expensive to locate in cities. Closing the gap between city and scattered locations of business and housing is the goal, however achieved—a goal well justified even in the most rigorously price-oriented economy.

Enterprise Zones and National Urban Policy

The underlying principle of Enterprise Zones is precisely what we have recommended as the basis for the whole National Urban Policy, i.e., provide a small increment of advantage for firms willing to locate in places where they might stimulate further growth and investment to the nation's benefit. Whole cities would benefit from locating jobs in neighborhoods within easy reach of unemployed residents. So the idea of Enterprise Zones is conso-

Summary

Without modest but concerted intervention on all levels of government, most cities will not regain strong downtowns.

Without strong downtowns, cities are not likely to attract or retain middle- and upper-income households or opportunities that can permit lower-income residents to raise their income and status.

If this happens, what will become of American cities and those who have no choice but to live in them? And what will be the loss to the nation's economy—the loss of what cities now contribute and, even more, what cities and city residents might contribute if the economic mainstream flowed again through city centers.