

# Controlling a City's Wealth

The Lessons of New Town Development

by EDWARD M. KIRSHNER and JAMES MOREY

*When a private developer builds a new town, he stands to make a fat profit. If the town owns and develops itself, that profit goes to the residents. Some implications for change in existing cities . . .*

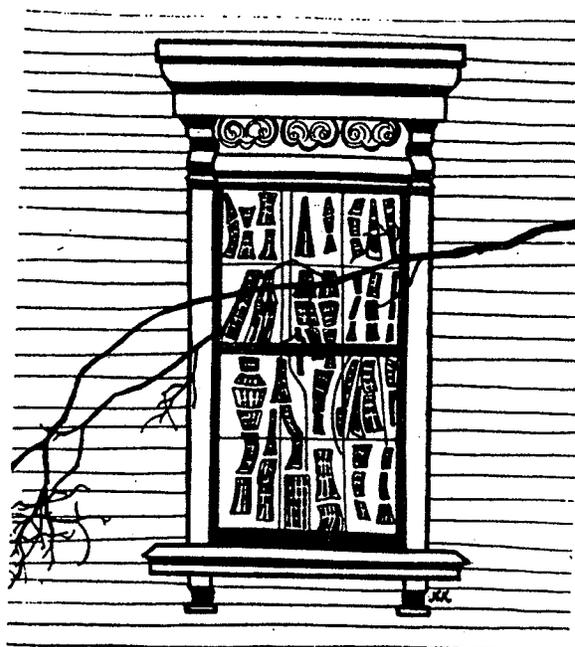
Oakland, California, is the "urban crisis" in microcosm. Unemployment is high and average incomes low. The city has more than its share of hard-core poor, who hardly get by on welfare payments, and a large number of blue-collar workers, who live only a little above the poverty line. Housing and education are deteriorating. Public transportation is inadequate, medical care hard to come by, the environment increasingly foul. The city, so runs the conventional wisdom, is too "poor" to provide what its citizens need. As with Oakland, so with most American cities: hence the "urban crisis."

Yet a glance at Oakland, while confirming that there is a good deal of poverty, would turn up a good deal of wealth as well. Many of those who work in Oakland earn substantial, even handsome, salaries. More to the point, Oakland is by no means economically underdeveloped. It is a leading transportation, commercial, and industrial center, and it boasts more than the usual complement of banks, insurance companies, and real estate developers. Few of these are on the verge of bankruptcy, as the impressive downtown offices testify. Wages and salaries are being

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earned, profits made, real wealth produced. Why then the apparent poverty, both individual and municipal?

Part of the discrepancy results from the highly unequal incomes that a capitalist economy generates, and the fact that the wealthy in particular often don't live where they work. Jobs that pay well are outnumbered by jobs that don't, not to mention those people with no jobs at all, and Oakland's well-to-do residents are vastly outnumbered by the less fortunate. Many of the better off live in Piedmont, a separate city totally surrounded by Oakland (and much of the industry is in Emeryville, an industrial city cut out of Oakland). The economic base that the city taxes for public services is thus limited.

A more significant part of the discrepancy has to do with ownership of wealth itself, and the ability to tap *directly* the income that wealth creates. Oakland's businesses are out to make money, which many of them have done quite successfully. They are free to use their income to pay high executive salaries or to provide luxurious work space for their office staff—or they are free to reinvest it to make more money. The city government, in contrast, owns very few productive assets. Those that it does own or control, such as the Port of Oakland and the Coliseum, are quite profitable but return little surplus for general use by the city.

The city thus relies for the bulk of its revenue on taxing power, which runs up against the obstacle just mentioned. Should it judge, for example, that the private market is not providing many of its citizens with adequate housing relative to their needs, it would still be unable to provide the housing. The money simply isn't in the municipality's till, and there is seemingly no politically feasible way, at least through conventional means, to get it. Oakland is not an extreme example: the problem plagues nearly all cities in the United States. Neither they nor the great majority of their citizens have any direct access to the income-producing wealth that surrounds them.

Reformers and citizens' groups working for change in urban areas find themselves caught in a bind. Communities or special-interest constituencies may demand better housing, better schools, more teachers, better-trained police, and so forth; but as long as they do not seek to change the fundamental structure of the urban economy, they are faced with virtually unanswerable arguments from the political establishment. The city government may provide a little bit of new public housing or one attractive new school, but when it comes to going beyond such tokens its cry of poverty appears to ring true. The usual result is either immediate discouragement, which helps to account for the rapid rise and fall of many insurgent community groups, or a plea to Washington for help. Although the federal government has money, fighting the White House is even harder than fighting City Hall, and federal subsidies (in anything like the scale required to meet citizens' demands) are seldom forthcoming except to the wealthy.

We believe that a more effective strategy for those seeking change in urban areas is to attack the problem at its roots, and to begin to change basic structures of economic ownership and control. If some part of the revenue created by economic activity can be channeled *directly* to the public treasury, the city will be able to provide services and facilities which it

otherwise could not. The amount of revenue from ownership may often be quite substantial, and success in one sector of the economy can provide the political and economic base for extending the domain of municipal control. We propose, in short, that change in the cities needs to be based on a program of *community ownership*—of real estate primarily, but also of utilities and even some businesses and industries. A city that owned itself—that was able to tap directly the income created by economic activity within its boundaries—would no longer be poor. And the direction of major resources would be in the hands of the citizens, not, as now, in the hands of largely nonresident corporate managers and private stockholders.

How might community ownership work, and how much of a difference would it make? One way to answer the question is to look at the hypothetical case of building a new town. The new town starts from scratch. Its costs of development can be calculated with a high degree of accuracy, as can its expected level of economic activity. Looking at new town development, we think, clarifies the nature of the urban economy, and demonstrates how community ownership could bring about the benefits we claim.

## New Town Development

Imagine, then, a prototypical new town, to be developed over a period of fifteen years.<sup>1</sup> The town will house 100,000 people, or roughly 31,000 families. It is "self-contained," not a bedroom suburb; there will be jobs provided in the immediate vicinity for all the working residents. The site is 25-50 miles from the core cities of the San Francisco Bay region, and several miles distant from regional services such as freeway interchanges and gas trunk lines. Its residents are expected to make, on the average, \$10,000 to \$12,000 a year per family, a level about equal to the current regional median income. The homes are row, town, or "patio" houses, with some low-rise apartments, averaging out to 12 dwelling units an acre (Table 1).

With these basic assumptions—and a number of more detailed ones—the costs of developing the town can be calculated with a fair degree of precision. Figuring the costs of development tells us how much the average family would have to pay to live in the town. Breaking the costs down by category shows where the money that each family pays ends up. We will calculate the costs of building the town under two ownership models, conventional profit-oriented development and nonprofit community-owned de-

velopment. The comparison between the two, we think, tells us a good deal about how to change the imbalance of wealth in urban areas.

**TABLE 1: Characteristics of the New Town Prototype**

Gross Income per Family	\$10,000/year
Disposable Income per Family	\$ 9,000/year
Families	31,000
Population	100,000-110,000
Jobs in the Town	35,000
Industrial	10,000
Primary Office	3,000
Service, Govt.	22,000
Distance from Metropolitan Core Cities	25-50 miles
Distance from Regional Access	4-6 miles
Raw Land Price	\$ 2,500/acre

In new town construction, one category of costs ("hard" costs) represents the outlay for land purchase, development of public facilities such as roads and sewers, and construction of buildings. This category also includes overhead charges to the new town developer (such as the high salaries he must pay skilled managers), interest on construction loans, and subcontractors' overhead and profit. In looking at the two models of development, we take these as fixed costs (Table 2).

**TABLE 2: Costs of the Prototype Through Completion, in millions of 1972 Bay Area dollars**

<b>Land Development and Infrastructure</b>	
Traditionally private	
Site purchase	\$18
Land development in town (excluding major roads and major water and sewer lines)	96
sub-total	\$114
Traditionally quasi-public (including buildings)	
Medical	\$24
Religious, institutional	20
Utilities	60
sub-total	\$104
Traditionally public (including buildings)	
Major roads, major water and sewer lines	\$38
Schools	70
Parks and recreation, community facilities and equipment	37
sub-total	\$145
<b>Total land development and infrastructure</b>	<b>\$ 363</b>
<b>Traditionally Private Structures</b>	
Residential Buildings	\$635
Industrial Buildings	\$ 69
Commercial and office buildings	\$ 86
<b>Total traditionally private structures</b>	<b>\$ 790</b>
<b>TOTAL TOWN COSTS</b>	<b>\$1,153</b>

The other category of costs depends on ownership and financing arrangements, the variables we will examine. The most significant figure here is whatever profit the developer expects to get, which is a cost in the sense that the residents will ultimately have to pay it. Also included in this latter category are such expenses as return to outside investors, interest on loans to cover land purchases, and property taxes during the development period. All these depend on how the process of development is organized, and are considered separately in the two development models described below.

**The Profit Model.** In the usual pattern of new town development in the United States, the "prime developer" is a private, profit-making corporation. The corporation buys the various parcels of land and develops the property; that is, it provides roads, sewers, business locations and buildings, some public buildings, apartments, and houses or construction sites. It then markets the new parcels and buildings for sale or rental to homeowners, businesses, other landlords, or builders.

This development process converts low-valued rural land to highly valued urban land. For example, to use figures selected for simplicity alone, the land might cost the developer \$2,500 an acre to purchase. The whole land-development process described above might bring the per-acre cost to \$10,000. But when the developer is through, he has an incipient city, and land prices will be roughly what they would be in other cities of comparable size and location. This might be as much as \$50,000 an acre in the case of commercial land. The difference between costs of development and income from sale or rental is the developer's profit.

Often this difference is substantial, and new town development is potentially quite lucrative. It is an enormous undertaking, to be sure, requiring large amounts of capital investment and carrying with it a considerable risk. For these reasons, new town development is not as widespread as one would otherwise expect. But a successful new town, like Columbia, Maryland, enables the prime developer and his investors to realize a substantial profit.

Financial calculations for the profit-making model of development normally take something like the following form. The developer establishes separate accounts for residential properties on the one hand and commercial and industrial properties on the other. He typically will develop residential property and sell it out to homeowners or builders at prices sufficient to produce an 18 to 20 percent profit on

the money he has put in.<sup>2</sup> He will not sell the commercial and industrial properties, however; these will be rented, and their expenses and income accounted separately. Over the entire period of development, the net income from leasing commercial and industrial property will normally provide a return of more than 20 percent on investment.

We have followed this practice in cost estimates for profit development of our prototype. The hard costs, together with the expected return to the developer, his interest on loans, etc., make up the total cost of the project under this model. If we divide up the residential portion of the total among all the families who will live there, we get the average cost per family of entry into the new town (Citizen's Entrance Fee, or CEF).<sup>3</sup> For the prototype, this figure comes to some \$25,000.

This is not, it should be noted, a lump-sum payment which the entering family normally would make at a given point in time. It is rather the *capital* cost of entry, and includes the purchase price of the homeowner's house and land; his or her share of the cost of public facilities such as roads; and his or her share of whatever profit, interest, and overhead expenses the developer assigns to the residential account. It does not include *operational* costs, such as monthly utility payments or the cost of maintaining the roads. Since it is the capital costs that vary between the two models, we use the CEF for the sake of comparing them more easily. We will translate it into monthly payments below.

**Nonprofit Development.** Now suppose the developer is not a profit-making corporation out to maximize return on investment, but some sort of nonprofit community group. Suppose too that this group has a lower-income constituency, and that its purpose is to provide new-town housing for all future residents at the lowest possible cost. The goal of any specific group in practice could as well be providing better schools, reducing the cost of health care, creating more open space, or some combination of objectives. We will assume, however, that all available money is used to cut housing costs, since this makes the effect of nonprofit development clearer. And we will show that nonprofit development will in fact make significant amounts of money available for this purpose.

On the first go-round, a group concerned with providing cheap housing might look to more conventional methods of cutting costs. For example, it might seek to reduce the physical costs of housing. Since housing in our prototype is roughly 70 percent of the total capital expenditure for which the family is responsible, a 10 percent reduction in housing costs

translates into a 7 percent reduction in CEF. Another tactic might be to seek out federal subsidies, for instance through the New Communities Act of 1970, which provides federally guaranteed loans for new town construction, or through Section 236 mortgage-interest subsidies. Nonprofit community ownership does not preclude any of these methods for cutting the price of housing. But in itself it is a much more powerful device than any available subsidies or other price-reducing tactics. A community-owned new town could provide housing far more cheaply than a conventional profit-oriented new town because the community would control the wealth that the development process created. Let us return to our notion of CEF—the capital costs for which each family will be responsible—and see why this is true and how much of a difference community ownership makes.

In calculating CEF under the nonprofit community-owned model, the hard costs of development do not change. The nature of the town, in other words, remains the same: the same standards of construction, the same proportion of commercial and industrial property, the same provision of public facilities. What does change is the flow of money from development. First, there is no separate account for residential as vs. commercial and industrial properties. Instead, net income from renting commercial and industrial property goes to the community—and is used, in our model, to reduce the cost of housing. Second, the developer (in this case, the community group) receives no profit on housing per se. It is provided to the residents at cost, so the housing portion of CEF is reduced by the 18-20 percent profit (on the developer's investment) we allowed in the first model. Through these changes alone, total CEF goes down by roughly 23 percent, or close to \$6,000 per family (Table 3).

TABLE 3: CEF under Profit and Nonprofit Sponsorship and Ownership of Real Property

Total CEF	
Profit	\$25,400
Nonprofit	\$19,500
Percentage Savings under Nonprofit	23%
Absolute Savings under Nonprofit	\$5,900

The process of realizing these savings is this. As the town is developed and after development, its nonprofit owners will receive a certain net income from the commercial and industrial property which they rent out. This money is used to pay part of the

interest charges on money borrowed at the beginning to finance housing. Because the homeowner is not responsible for paying these interest charges, his or her CEF goes down.

In effect, those who rent commercial and industrial property are subsidizing homeowners. This may seem "unfair," but remember that the commercial and industrial properties in the new town are rented at the same rates as similar properties in other towns. These properties are valuable largely because they are near a populated area, where residents provide a labor force, market, and supporting services. Companies thus find it worthwhile to locate there, even at urban rental rates. Since the residents in effect create the value, it seems reasonable—if this is our goal—to apply that increased value toward reducing their CEFs. In a profit-oriented new town, of course, the developer would argue that *he* created the value by his entrepreneurial efforts, so he is entitled to the profits. But here, the entrepreneurial role is assumed by the residents as a group (or is done for them on a limited-fee basis), and they pocket the benefits in the form of cheaper housing.

The fact that the developer receives no profit on the housing sector also contributes to a reduction in CEF. This portion of the savings comes about because the process of investment is different in the two models. In the first, we assumed that the developer put up 25 percent of the money (his "equity capital") and figured housing-site prices to allow for an 18-20 percent return on this investment. The rest of the money for development would have been borrowed from banks, at a fixed rate of interest (for the calculations we assumed 8 percent, although with a 4 percent rather than 3 percent inflation factor this would come to 9 percent today). In the nonprofit model, we assume that all the money is borrowed at fixed interest rates. We thus eliminate the higher return on investment which the private developer demands for his own money.

Would such investment be forthcoming for a nonprofit new town development group? Given sufficient political strength and technical expertise (obviously significant conditions), there is good reason to think that money would be available even though the developer was not the traditional risk-taking, profit-making capitalist. In fact, money that the nonprofit group borrowed might even come at lower interest rates than a private developer could command. For one thing, the nonprofit developer is a quasi-public entity, and might in fact be a municipal or county government itself. A higher proportion of expenditures, both traditionally governmental and other,

could therefore be financed through public agency bonds, which carry lower interest rates because they are tax-exempt. If the venture were relatively safe—for example, if the bonds were guaranteed by the state, as with the New York Urban Development Corporation—effective interest rates on bonds could be as little as five or six percent. Even if state guarantees were not available, whatever money the town borrows is guaranteed by its taxing power, not simply by the profitability of any particular project (as would be the case with the private developer).

Another investment device which the nonprofit new town might use is "tax-shelter" investment. Federal income-tax laws allow investors to deduct from taxable income certain kinds of expenses incurred in real estate development, such as property taxes and interest on construction loans, and in real estate ownership, such as depreciation. The nonprofit developer and the investor establish what is called a limited partnership arrangement; through this, the investors can "own" the development for tax purposes without assuming control, which remains in the developer's hands. The return to the investor is primarily in the form of lower taxes, and not any significant payment of interest by the developer. The nonprofit new town could thus raise an appreciable amount of money with little interest payment.

Both these mechanisms—tax-exempt bonds and tax-shelter investment—are an indirect subsidy to the new town from the federal government, which absorbs the tax loss. Neither of them is a particularly desirable element of federal tax policy. But they do exist, and low-income groups should be able to use them for their purposes as easily as the wealthy for whom they were designed. And they do suggest that there is no reason in principle that a nonprofit new town could not attract outside investment.

Finally, given our assumptions about the town's desire to build low and moderate-income housing, some investment might not come from profit-oriented investors at all, but from socially oriented sources such as churches, mutual insurance companies, union pension funds, foundations, and universities. These institutions, while demanding some fixed return on their investment (we assumed 7-8 percent, amounting to 8-9 percent today), would not demand as high a return as conventional private investors. And they might be persuaded to invest on social grounds even if the venture were not as safe as other options open to them.

If none of these devices were used, and if all financing (except equity capital) was exactly the same in the two models, nonprofit community-owned

development would still allow significantly cheaper housing. CEF would be reduced by 20 percent, or roughly \$5,000, rather than by 23 percent and \$6,000. But since the form of investment is likely to differ in the nonprofit case, our primary comparison of CEF reflects this fact.

## Utilities and Businesses

If the primary goal is to reduce the costs of housing to residents, there are other sources of income which can be tapped by the new town as well. One obvious example is the town's utility system: electric power, gas, telephone, even cable TV. In conventional new towns, utilities are under private ownership. They are provided by outside companies who charge rates high enough to realize a sizable profit on investment. Yet in some respects they are the most natural operating venture for community ownership. They are constructed along with the usual public infrastructure of roads, sewers, water lines, and so forth. The new town developer must at least help to plan and coordinate their construction. In some cases, the developer must also finance or "front" the money for them. Most importantly, they are natural monopolies since local residents are a captive market. Although private ownership is most common, they have a history of municipal, cooperative, or other public ownership arrangements as well.

Utility payments, in conventional new towns, go to the outside companies which provide the various services, and in some cases to the developer himself. Since utility payments are operational costs rather than capital costs, they are not included in the calculation of CEF. Some part of these payments, though, is profit, or net return on investment. In the nonprofit model, the community itself provides the utilities, with ties to outside utility suppliers as necessary. Given the same utility rates to residents, the profit portion of their payments will return to the public treasury. Again, the community uses this money to pay part of the interest on housing loans—which reduces the residents' CEFs further. The effect would be the same if we simply deducted this money from the residents' utility bills, making utilities that much cheaper. Using the money to pay interest on loans, however, incorporates it into CEF and thus facilitates comparison of the two models.

For the prototype, we calculated expected net income from electric power, gas distribution, local telephone service (with a tie in to AT&T for outside service) and the entire cable TV system. The borrowed capital which this money could pay for amounts to some \$2,500 per family, or a reduction in

CEF of 10 percent more.<sup>4</sup> Property ownership and utility ownership together reduce CEF by more than \$8,000 or roughly 33 percent. For comparison, physical costs of housing units would have to be reduced almost 50 percent to achieve similar savings.

Another possibility—to carry the idea of community ownership to its logical conclusion—is community-owned commercial and industrial operations. With rare exceptions, business enterprises in American new towns are owned and operated by private companies, just as they are in existing cities. Yet there are precedents for community or cooperative ownership of some such enterprises in new towns in this country as well as in Europe. Examples can be found in the retail consumers' cooperative of Greenbelt, Maryland; the original community-trust-owned department store (among other cooperative stores) of Welwyn Garden City in England; and the cooperatively owned housing construction companies that produce much of the housing for Swedish new towns. Outside new towns, of course, the viability of cooperative ownership and operation of commercial ventures, though they are not widespread, has been demonstrated in many countries for decades. Continuing to work on the assumption that the residents, by their very presence, make profitable enterprise possible, it is not unreasonable that part of that profit should be returned to them in the form of a reduction in housing costs.

Though we have not carried out detailed calculations of community-owned businesses for the new town prototype described in this article, we did so for a smaller prototype. This smaller town, seen as an expansion of a rural village with roughly 20,000 eventual inhabitants, would have a mixed industrial and agricultural economic base. Assuming community ownership of a majority of commercial ventures (retail shops and services, professional and office services, wholesale suppliers) and a minority of industrial ventures gives us a reduction in CEF of roughly 18 percent. If we add in a sizable cooperatively run agricultural sector, we can further reduce CEF 6 percent. For this smaller town, community ownership of all the sectors (real estate, utilities, commercial-industrial, and agricultural) gives a total savings of some 52 percent. CEF in this case is reduced from nearly \$24,000 to slightly more than \$11,000.<sup>5</sup> In the larger town represented by our "self-contained" prototype, savings from nonprofit ownership schemes would likely be as much or more.

Several conclusions emerge from these figures. Total savings due to nonprofit ownership of a reasonable portion of commercial and industrial

enterprises, in addition to real estate and utilities, may cut capital costs to families *roughly in half*. To achieve a similar reduction, physical costs of housing would have to be reduced by two-thirds, an unfeasible proposition. Savings due to nonprofit ownership and operation of enterprises are about the same as savings resulting from ownership of real estate. Thus, the community's involvement in operating businesses, a relatively active, difficult, and risky position, may produce monetary rewards only equal to those expected from the community's fairly passive role as landlord. Net returns to the community relative to invested capital, however, are somewhat greater in the case of enterprise ownership. Finally, as would be expected, financial terms have a significant impact on total savings under nonprofit ownership. For example, an increase in interest rates from 7 to 8 percent in the nonprofit case, with no corresponding change in the profit case, reduces savings proportionally from 52 to 44 percent.

**Monthly Payments and Income Levels.** The proof of the pudding, of course, comes when we translate our CEF figures into annual housing costs. Making this conversion gives us the amount each family must be prepared to pay for its accommodations, and thus the approximate income that each family must command if it is to move in. Since CEF represents the capital cost of entry into the town, we assume that it translates into a monthly mortgage payment at the going rate of interest. The mortgage would be large enough to cover both the cost of the house and land on the one hand and each family's share of public facilities on the other. To this capital expenditure we have to add operating expenses, the same in both models, if houses or apartments are sold to individuals. These include an allowance for real depreciation of buildings, and an allowance for maintenance, property taxes, and vacancies.<sup>6</sup>

If the houses and apartments are sold to residents rather than rented, the profit-oriented development of our prototype results in a \$3,000 annual housing cost per family, or \$250 per month.<sup>7</sup> If we assume that housing costs amount to 20 percent of income (which most economists take as a reasonable standard), then the prospective resident must earn \$15,000 a year to move in. With the same prototype and the same assumptions—changing only from profit development to community-owned development—the annual housing cost is \$2,300 and the required income drops to \$11,500. If we then add the possibility of tax-shelter sale for the nonprofit model as outlined above, the figure drops to \$10,500. For the smaller rural town, if we add the possibility of

partial ownership of enterprises and agricultural land, the required income may drop as low as \$8,200 (Table 4). If rent is a higher proportion of income (for example, 25 percent, as is often true at lower income levels), required income could be even less.

TABLE 4: Required Average Incomes under Profit and Nonprofit Assumptions

<b>A. Profit</b>	
Investor holds for rent	\$18,000
Investor sells to residents	15,000
<b>B. Nonprofit (real estate and utilities)</b>	
Individual mortgages	11,500
Group mortgage	11,000
<b>C. Phased tax-shelter sale plus (B).</b>	
Individual mortgages	10,500
Group mortgage	10,000
<b>D. Partial ownership of enterprises and agricultural sector plus (B): "rural expanded" town</b>	
Individual mortgages	9,200
Group mortgage	8,800
<b>E. Phased tax-shelter sale plus (D): "rural expanded" town</b>	
Individual mortgages	8,200
Group mortgage	7,800

To carry savings even further, the nonprofit new town might concentrate on selling houses and apartments not to individuals but to group cooperatives. The initial effect of this would be a lower average interest rate on mortgages because of the more secure combined financing. In our calculations, this might reduce required income by as much as \$500 more. Over the long haul, moreover, no individual could refinance the house or apartment to bring its price up to "true" market value. Cooperative ownership allows savings to be passed on from resident to resident, and prevents any individual from capturing the land-value increment which, in the nonprofit model, belongs to the community as a whole.

The reductions in required income indicated in Table 4 are more significant than the figures themselves imply. In most cases, decreasing the required income—because of the pyramid structure of income distribution—means that a lot more families become able to live in the town. For instance, the highest required average income in the profit case is \$18,000. Fewer than 25 percent of Bay Area families earn this much. In the highest nonprofit case, the income is \$11,500, which is about the Bay Area median, and the number of families reached is more than doubled.

A new town developed through community ownership, then, could provide housing and a decent environment for many more people than one developed in the conventional way. The reasons are not hard to understand. In both models, development of the town creates wealth, which is reflected in high property values. Under private ownership, the developer gets the income which ownership of the real estate produces. With community ownership, however, the money returns to the residents—in our case, in the form of cheaper housing. If the town's economy thrives, the residents will benefit directly and immediately because money flows to the public treasury. There could never be a situation like that of Oakland, where corporate affluence stands in striking contrast with urban poverty. Describing the prototype in detail, we hope, has demonstrated why this should be so.

### The Wealth of Cities

Our prototypical studies of new towns should not be mistaken for plans for action. Community-owned new towns will find few friends among the developers and corporations which heretofore have regarded new towns as their private domain. Those who might seek to implement the idea—low-income community groups in particular—will seldom have the political muscle or the technical expertise to undertake so large a project.

The immediate practical implications of our study results have to do with existing cities like Oakland, where the heart of the "urban crisis" lies. As our findings show, a program of community ownership can enable the people—community, municipality, whatever—to capture directly the wealth created by economic activity, and to use that wealth for their own benefit. It can provide a handle by which localities, largely bypassing state and federal political hierarchies, can begin to meet their citizens' economic needs.

How might one begin to establish community ownership in urban areas? One starting point is to look at the mechanisms which could be available to a community-owned new city, and simply to apply them to existing localities. In California, for example, cities have the constitutional right to take over public utilities through purchase or eminent domain. The city of Palo Alto earns \$4 million a year through its ownership of utilities, while saving its residents over one-third on their electric bills. Similarly, it is estimated that municipal takeover of the electric company in Berkeley would yield at least \$1 million in profits per year from the outset and well over \$5



million in later years. Utility ownership may be an available option in other states as well.

The city can also partially determine the use of its land through public investment, zoning, building permits, and other land-use controls. Public investment (for example, a new transit line or city college) often raises the value of land in its vicinity. If the city owns property in the area—whether acquired through eminent domain, tax foreclosure, or outright purchase—it can rezone for commercial use and rent out land, buildings, or both to businesses. Because it can charge higher rents than before the public development took place, it captures the increment in value, precisely as it does in the new town prototype. The rents paid by the new tenants, as in the prototype, will flow to the public treasury, rather than padding the pockets of private entrepreneurs.

Or, working from the other direction, the city can endeavor to reduce property values to landlords, for example by establishing strict rent control. A mortgage or mortgage-insurance program could then facilitate a transition to nonprofit or cooperative ownership of housing. Tenants, for example, could organize themselves into a co-op. They could obtain financing guaranteed or provided by the city to buy their homes from landlords, who would have to sell at lower prices than before rent control.

Municipal ownership of businesses is another possibility. Even now, many big cities either operate directly or franchise a number of commercial ventures: a municipal terminal and airport, along with their restaurants and other concessions; a marina; a stadium; parking lots and garages; and recreational

facilities. To the extent that these facilities do not serve and benefit the broad public (i.e., to the extent that they are used predominantly by upper-income groups) one can easily justify a policy in which they are operated or taken over to maximize return of profits to the city. These profits can constitute a significant contribution to the general revenue, to be used for housing or other public purposes.

To raise funds for purchase or development of real estate and enterprises, city governments have an imposing array of investment resources open to them. A city may have on hand a large accumulation of assets in the form of pension funds, accrual funds, and reserves. Usually, these funds are kept in the form of commercial bank accounts, governmental notes, and commercial bonds (private utilities being a favorite because of their security). Almost invariably, these assets earn interest at or below the rates earned by private citizens in savings banks. They also are almost always invested outside the community.

The assets would be of greater use to the community as a whole if they were invested in community-owned ventures, perhaps through the sale of city-guaranteed bonds by each enterprise to the appropriate fund. The municipality's power to sell tax-exempt bonds on the open market at below-market interest rates can also be used to finance public ventures. Bonds might be used, for instance, to establish a revolving loan fund for housing mortgages and rehabilitation. Or the city might establish a program to insure commercial loans or mortgages, as the city of Fresno, California, has done for second mortgages.

In any city, there are apt to be a number of private institutions with significant financial resources that are not used in any direct way to benefit the city. Unions, churches, private schools, and hospitals normally have reserve funds, pension funds, and often endowments. The city might offer to guarantee repayment of any debt financing that local institutions provided to support community-owned ventures. Also, as with the new town prototype, the limited-partner tax-shelter arrangement for investment may be open to city governments. A city could finance and construct a cable TV facility, then sell and mortgage it to a community-owned development corporation (CDC). The CDC would enter into limited partnership with outside investors who, as described, can take sizable tax deductions based on depreciation and other allowances. Part of the investment proceeds might go into additional TV facilities, but most of them would be available for other purposes.

Some questions remain. How likely is it in practice that community-owned ventures can generate sizable surpluses (profits) and compete successfully, when necessary, with private enterprises? Can community-owned ventures provide a means of accumulating really large amounts of capital?

There is a long-standing myth to the effect that only "private enterprise" can operate ventures efficiently. Yet, there is much evidence to the contrary. Scores of cities—in northern California and the Pacific Northwest, for example—already own and operate electric and other utility systems, with service rates below those of the large private utility corporations. To the degree that community ownership becomes a vital political issue within a city, there should be an abundance of capable and experienced people who dedicate their efforts to achieving its success. The issue, however, is not solely one of administrative efficiency; there are other advantages which community-owned ventures have over private corporations. Because municipal bonds are tax-exempt and are seen as secure investments, they can, as noted, be sold at lower interest rates than industrial and commercial bonds. Since debt financing constitutes the major source of capital funds for most ventures, public and private, this difference in interest rates (as the prototype shows) is highly significant.

Another advantage is that municipally owned ventures are not required to pay state and federal taxes. It is also frequently possible to structure cooperatively owned and nonprofit ventures so that they too pay little or no federal or state taxes, even when competing directly with private business. Locational advantages should also result from the city's ability to control zoning and to exercise eminent domain. A community-owned industrial park, for example, could lease its facilities to outside corporations at rates competitive with those of privately owned and leased facilities, or with those built by the corporation itself. These advantages will also apply to the operation of community-owned ventures (e.g., a furniture factory or a supermarket) in direct competition with private business.

### Political Control

There is, of course, a catch. In the community-owned new town model, we assumed that the developer was a community group committed to realizing the benefits of community ownership. In the examples above, we assumed that the city government wants to use every means at its disposal to expand its ownership and control of economic activities. In fact, it is

precisely this use of governmental power which we see as critical if community ownership is to go beyond the limitations of present experiments in community-owned enterprise.

In both cases, the argument rests on large assumptions. Indeed, the difficulties involved in creating community-owned new towns at the moment seem enormous. In existing cities, the potential for community ownership can be tapped only if those who favor it wrest political control from entrenched interests. In this case, there are enough early-stage precedents to suggest that the time is ripe for such an attack.

In Berkeley, the RIOT group in conjunction with the April Coalition has led a fight for community ownership of the local electric utility company, and is developing plans relating to the telephone and cable TV systems. Should the coalition gain a majority in the April elections this year, as seems a good bet, the electric power plan at least may come to fruition. In Rochester, New York, the black community organization FIGHT has developed enough political strength to take effective control of both planning and redevelopment in a large urban renewal area; and it has lined up enough governmental support to initiate a community-owned electronics plant. In southwest Texas, a coalition of Mexican-American groups has attained electoral control in Crystal City. The coalition is beginning to implement a series of proposals on decentralization of municipal services, and is exploring possibilities relating to community ownership. And in Oakland itself, Bobby Seale is running for mayor, with the promise of substantial support from community groups.

In all such cases, eventual success will depend on moving from immediate, short-term issues of reform to the more comprehensive programs of community ownership. A political strategy for community ownership must build on issues of direct concern to most low and moderate-income urban residents. These include unemployment and high taxes; poor-quality, high-cost housing; the destruction of neighborhoods by urban renewal and highway construction programs; and the inadequacies of public education and medical services. The problem is to demonstrate that all these relate back to the more basic problem of who controls the wealth. Under present arrangements, revenues from real estate and businesses simply cannot be tapped by the city for the programs its residents demand. Community ownership may develop out of the demand for immediate changes in other areas, and eventually provide a way of meeting the needs.

Recent developments in Lynn, Massachusetts, provide a useful example of this process. In Lynn, a community coalition has used its own newspaper to wage an intensive campaign against outside economic ownership and control, as represented by the huge General Electric plant and large absentee landlords. The coalition's primary issue for organizing was rent control; the primary target, slumlords. After a good deal of work, a rent control referendum passed by a 60 percent majority, and tenants gained control of the Rent Board. At the same time, the coalition elected one of its members as mayor, and put in office a city council pledged to rent control and better housing. Given the nature of the campaign, the stage is now set for a move toward establishing community ownership of housing, the logical next step. And there are signs—early ones to be sure—that the coalition can move effectively in this direction.



Our prototypical studies demonstrate the economic benefits of community ownership in new towns. But it is in existing cities where basic economic and political change is most likely to happen. The prospects for change appear brighter now than in the past, as more and more hard-pressed city residents are coming to believe that they, as a community, can and should begin to assert control over their locality's economy.

"Community control" in this sense will not be an end in itself, but rather may be the first step toward a new social system of decentralized economic and political control. A high degree of citizen participation in government and workers' self-management in industry and commerce might merge to form real "people's institutions," linked regionally and nationally, to control the wealth. Community

ownership in this context is no doubt utopian. But the ineffectiveness of traditional piecemeal reforms suggests that the only practical way of dealing with present problems is a radical restructuring of our system of political power and economic control.

We do not claim to know the precise forms this reordering will take. But we do argue that first steps must be taken now. We agree with Martin Buber that building a better society is a gradual process, whether before or after a political revolution. In André Gorz's words: "The working class will not unite politically or mount the barricades to get a ten percent wage increase or 50,000 more units of public housing." They do not need to, as John Case adds, "nor would the goal be worth the effort and the risk. Unless a vision of a better social order can be made concrete—and related to present possibilities—people will struggle for what they can get within the existing system. They will cast a skeptical eye on radicals who call for an undefined transformation of society."<sup>8</sup> Community ownership is precisely a way of linking "present possibilities" to longer-term objectives.

There obviously are obstacles. Those whose interests lie with the existing system will provide formidable political opposition, at one stage or another, to the development of the new forms. Private entrepreneurs—landlords, developers, some businessmen—will have little interest in supporting schemes which redirect the profits that would otherwise go to them. Large corporate interests—banks, utilities, manufacturing concerns—will not welcome competition (or replacement) from community-owned ventures operating on a nonprofit basis. It would be naive to assume that our proposals could be implemented without recurrent tests of political strength between their adherents and their opponents. In the long run, moreover, the establishment and continuation of community ownership at the local level will depend on corresponding changes in the regional and national political economies. Such changes will not be easy to come by.

Yet the basic problems remain, and the logic of the argument holds. The range of issues suggested by our studies of new town models has direct relevance to the realities of the "urban crisis" we sketched at the outset. If new answers to the problems of cities are to be found, it is a safe bet that we will need to look well beyond the traditional discredited programs. In our view, community ownership may be a significant approach toward effective solutions.

#### FOOTNOTES

1. The basis for these studies is contained in the following joint Master of City Planning theses: *New Town Development: Financial Aspects*, by Peter L. Bass, and *New Town Development: Costs*, by Edward M. Kirshner (Berkeley: University of California, 1971). This article is a condensed version of a paper in preparation for the Center for Community Economic Development (Cambridge).  
The authors are grateful to Peter Bass, Carl Sussman, and Cynthia K. Fredrick for their help in the preparation of the material in this article.
2. We assume that the developer puts in 25 percent of the money; this is his "equity capital." The rest is borrowed at 8 percent interest. We base this interest rate and the return rate of 18-20 percent on expectations in an average 3 percent inflationary economy.
3. For the mathematical formula used to determine CEF, see Bass-Kirshner theses, note 1.
4. This assumes a nonprofit financing advantage as explained above. Equivalent financing arrangements result in savings of roughly \$2,250, or 9 percent.
5. Nonprofit financing advantage assumed here also.
6. The property tax portion of this includes operating property taxes only, as distinct from property taxes that go to capital improvements. The latter are included in CEF.
7. Annual housing costs are calculated assuming either 25-year conventional mortgages at 7½ percent interest (with 20 percent down payment at an imputed 5 percent return) or FHA-insured 30-year mortgages at 7 percent plus ½ percent insurance (with a small down payment at 5 percent). The additional allowance for real depreciation is 1 percent of initial building cost per year; and for maintenance, vacancies, and operating property taxes, about 65-70 cents per square foot of building space per year.
8. See Buber, *Paths in Utopia* (Boston: Beacon Press, 1966); Gorz, *Le Socialisme Difficile* (Paris: Editions du Seuil, 1967); Case, "Workers' Control" in Gerry Hunnius, G. David Garson, and John Case, (Eds.), *Workers' Control: A Reader on Labor and Social Change* (New York: Vintage Books, 1973).



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