

JOHN P. CRECINE

*John P. Crecine is Assistant Professor of Political Science and Sociology, and Research Associate, Institute of Public Administration, at the University of Michigan. He is currently working on a computer simulation model of municipal resource allocation.*

**THE URBAN  
ECONOMY:  
Public and  
Private**

**Wilbur R. Thompson, *A Preface to Urban Economics*. Baltimore: The Johns Hopkins Press, 1965. 413 pp., \$7.50.**

**Howard G. Schaller (ed.), *Public Expenditure Decisions in the Urban Community*. Baltimore: The Johns Hopkins Press, 1963. ix, 198 pp., \$3.50.**

**Julius Margolis (ed.), *The Public Economy of Urban Communities*. Baltimore: The Johns Hopkins Press, 1965. xvii, 264 pp., \$5.00.**

Collectively, these three books represent recent contributions to the field of urban economics. They were sponsored by the Committee on Urban Economics organized under a Ford Foundation grant to Resources for the Future. The Thompson book is a basic economic text, clearly written, which should prove understandable to a large audience of urban governmental practitioners and social scientists. Thompson views the urban area as a "little economy" and devotes most of his attention to its private sector. The other two volumes are a collection of papers (20) presented at the 1962 and 1964 Conferences on Urban Public Expenditures, sponsored by RFF. The conference papers focus on the role of public expenditures in the urban economy.

## URBAN AFFAIRS QUARTERLY

The three volumes address themselves to different aspects of urban behavior. The following chart identifies significant aspects of the urban private and public economic system:

### ASPECTS OF URBAN ECONOMIC BEHAVIOR

Extra-Governmental (private sector)	Governmental (public sector)
1. Exogenous Economy: "export" market, basic industry, institutions	6. Government Expenditure Decisions: allocation and service decisions
2. Endogenous Economy: local service sector, regional commercial activities	7. Government Decision Makers
3. Labor Pool	8. Tax Revenues
4. Population Characteristics: size; urban-suburban distribution; age, wealth, income distributions	9. User Revenues
5. Political Characteristics: political jurisdictions and fragmentation, role of regional "party," "power structure"	10. Intergovernmental Revenues: Federal and State monies

Professor Thompson has divided his book into two parts. "An *inter*-urban income and employment analysis which stresses structure and process in Part I gives way in Part II to an *intra*urban analysis more heavily oriented to problems and policy." In Part I, he stresses the relevant interactions of the following aspects of urban economics: exogenous economy, endogenous economy, labor pool, population characteristics, and political characteristics. These aspects are examined in terms of "three basic indexes of economic welfare:"

1. Affluence—a higher and growing level of real income and expenditure opportunities.
2. Equity—income distribution under the free market system and its redistribution through local government actions.
3. Stability—relating to sessions, business cycles, and growth as well as to "efficiency in the use of resources."

Throughout the "non prescriptive" Part I, the genesis of urban centers and questions of economic level, distribution, and stability in the local economy are examined in the framework of an "export base theory."

## THE URBAN ECONOMY: PUBLIC AND PRIVATE

The exogenous portion of the local economy is seen as the driving force for the endogenous or service sector, and ultimately the public sector. Each urban area has a unique grouping of the factors of production—land, labor, capital, and management. This natural “advantage” in large part determines the direction and magnitude of growth. After an urban area reaches a certain minimum population size (roughly 350,000), it allegedly develops internal economics of scale—through its labor pool, population, and service base—and constitutes a viable urban system capable of “surviving” under nearly all conditions. The built-in consumer demand of the system and its supply of labor and services, enables the area to adapt to externally imposed changes in the export base.

Part II is concerned with problems. The urban planning function is discussed in the context of: “(1) The causes and consequences of poverty, (2) the neglect of the role of price, and (3) the social, economic, and political implications of great size.” A number of prescriptions are offered in the framework of the mechanisms in Part I.

If Thompson’s work can be faulted, the *source* of difficulty rests in its prescriptive orientation. One major objective of the book was to “bridge the gap that has developed between economists and urban planners.” In so doing, he has freely mixed descriptive with prescriptive theory. Rather than describe the urban economic system as it is (positive theory) *or* the system as it ought to be (normative theory), the two viewpoints are mixed. This is unimportant *if* you accept Professor Thompson’s normative performance criteria or goals.

In summary, Professor Thompson has developed an impressive and easily understandable conception of an urban system. Some difficulties arise, however, if one wishes to use his positive theory to build upon.

Thompson’s emphasis is clearly on the private sector as the basic determinant of urban economic activity. Local government, through public expenditures, is able to encourage only marginal changes in the extra-governmental variables. On the other hand, Thompson implies that these extra-governmental variables influence public expenditures, though only indirectly, through the revenues constraint. Thus the relationship between extra-governmental variables and public expenditures is blurred by the governmental allocation process.

The collections of readings in the Margolis and Schaller volumes focus on different aspects of the urban-economy problem—the role of the public sector. Below, the individual papers in these volumes have been categorized:

## URBAN AFFAIRS QUARTERLY

<i>Author and Title of Paper</i>	<i>Aspects of Urban Systems Covered</i>	<i>Positive (P) or Normative (N) Approach</i>
<b>1962 Conference Volume</b>		
Baumol, W. J., <i>Urban Services: Interactions of Public and Private Decisions</i>	Shifts in activities from endogenous economy to government expenditure decisions, based on private sector changes.	N
Manvel, A. D., <i>Changing Patterns of Local Urban Expenditure</i>	Changes in levels of governmental expenditure decisions. Influences thereon by intergovernmental revenues.	P
Mushkin, S. J., <i>Intergovernmental Aspects of Local Expenditure Decisions</i>	Influences of intergovernmental revenues on tax revenues and government decision makers; and of tax revenues and government decision makers on government expenditure decisions.	N (and P)
Vickrey, W. W., <i>General and Specific Financing of Urban Services</i>	Relation of government expenditure decisions to mix between user revenues and tax revenues.	N
Ackoff, R. L., <i>Toward Quantitative Evaluation of Urban Services</i>	Relation between government expenditure and exogenous and endogenous economies as well as labor pool and population characteristics.	N
Lichfield, N., and Margolis, J., <i>Benefit-Cost Analysis as a Tool in Urban Government Decision Making</i>	Evaluation of government expenditure decisions in light of impact on exogenous and endogenous economies as well as on labor pool and population characteristics.	N
McKean, R. N., <i>Costs and Benefits from Different Viewpoints</i>	Evaluation of same factors and relationships as above.	N
Hirsch, W. Z., <i>Quality of Government Services</i>	Measuring aspects of impact of government expenditure decisions on exogenous and endogenous economies, as well as on labor pool and population characteristics.	N
Sacks, S., <i>Spatial and Locational Aspects of Local Government Expenditures</i>	Need for additional variables in measuring relations between government expenditure decisions and exogenous and endogenous economies as well as labor pool and population characteristics.	P (and N)

## THE URBAN ECONOMY: PUBLIC AND PRIVATE

<i>Author and Title of Paper</i>	<i>Aspects of Urban Systems Covered</i>	<i>Positive (P) or Normative (N) Approach</i>
<b>1964 Conference Volume</b>		
Rothenberg, J., <i>A Model of Economic and Political Decision Making</i>	Covers all aspects; assumes rational individuals.	N
Leibenstein, H., <i>Long-run Welfare Criteria</i>	Relation between labor pool preferences and government decision makers' preferences and the relation of these to government expenditure decisions.	N
Buchanan, J. M., and Tullock, G., <i>Public and Private Interaction under Reciprocal Externality</i>	Investigates question of which activities belong in the endogenous economy and which in government expenditure decisions.	N
Banfield, E. C., and Wilson, J. Q., <i>Voting Behavior on Municipal Public Expenditures: A Study of Rationality and Self-Interest.</i>	Conditions where population characteristics decided on tax revenues and government expenditure decisions.	P
Davis, O. A., <i>Empirical Evidence of Political Influences upon the Expenditure Decisions of Public Schools</i>	Long-run determinants of role of government decision makers (and ultimate determinants of government expenditure decisions) being population characteristics.	P
Ward, B., <i>Majority Voting and Alternative Forms of Public Enterprise</i>	Determinants of goal system of government decision makers in legislative or committee situation.	N
Strotz, R. H., <i>Urban Transportation Parables</i>	Determinants of mix of intergovernmental revenues, user revenues, and tax revenues for load expenditures (government expenditure decisions).	N
Kneese, A. V., <i>Rationalizing Decisions in the Quality Management of Water Supply in Urban-Industrial Areas</i>	Choice between exogenous or endogenous economy and government expenditure decisions as appropriate place for decisions.	N
Weisbrod, B. A., <i>Geographic Spillover Effects and the Allocation of Resources to Education</i>	Effect of population and political characteristics on government expenditure decisions.	N
Lichfield, N., <i>Spatial Externalities in Urban Public Expenditures: A Case Study</i>	All relevant outputs in exogenous and endogenous economies, labor pools, and population characteristics must be considered when evaluating government expenditure decisions.	N

## URBAN AFFAIRS QUARTERLY

Author and Title of Paper	Aspects of Urban Systems Covered	Positive (P) or Normative (N) Approach
1964 Conference Volume		
Chinitz, B., and Tiebout, C. M., <i>The Role of Cost-Benefit Analysis in the Public Sector of Metropolitan Areas</i>	Relation between population characteristics and tax revenues.	N and P

The papers in the Schaller and Margolis volumes generally assume a working knowledge of welfare economics literature. A key concept is that of "externalities." Choice between public and private decision making is based on external economics (diseconomics) that can be realized (avoided) through collective action that could not have been achieved (avoided) through uncoordinated private action. Most of the papers are aimed at specifying appropriate (given assumed values and conditions) behavior. "Appropriate behavior" also includes the specification of the appropriate decision system—the private sector (the exogenous or endogenous economy), individuals, or public officials. Cost-benefit analysis can be viewed as a set of decision procedures (for public officials) that involves the identification of policy consequences and their evaluation.

The dissimilarity between the generally normative approaches taken in the public expenditure papers and Thompson's approach tells us how little we really know about the urban economic system (especially positive theories of the political decision process). In order for normative approaches to be more than intellectual exercises we first must understand the existing urban decision systems. We need *both* descriptive (positive) and prescriptive (normative) theories. In many ways, they depend on one another for their relevance. The RFF sponsored work represents a series of valuable first steps in the emerging and highly important field of urban systems.