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UNCOMPENSATED NONCONSTRUCTION COSTS WHICH URBAN HIGHWAYS AND URBAN RENEWAL IMPOSE UPON RESIDENTIAL HOUSEHOLDS

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I. Introduction

Urban highways and urban renewal are public outputs which impose many nonconstruction costs upon households living in the metropolitan areas where they are located. Yet present public policies ignore most of these costs by failing to take them into account when planning the improvements concerned, and failing to compensate the citizens who are compelled to bear them. This dual failure results in very widespread injustice. Moreover, the heaviest burdens generated by such injustice tend to fall upon citizens least able to bear them because of their low incomes and generally restricted opportunities.

It may seem inappropriate to discuss the costs of two major government programs at a conference on the economics of public output. But one man's benefit is often another man's cost. So almost every public project produces some negative impacts on the output side as well as the negative impact of paying for its inputs. Yet too often public construction projects are evaluated by comparing only the benefits on the output side with the costs on the input side—or at least ignoring many significant costs generated by outputs.

NOTE. This paper is based upon a study conducted under the auspices of the Baltimore Urban Design Concept Team and financed by several federal agencies. The opinions expressed herein are solely those of the author and do not necessarily represent the views of the members of the Baltimore Urban Design Concept Team, the Maryland State Roads Commission, or any of the other local, state, and federal agencies connected with the Baltimore Highway Project.

This paper is aimed at remedying this imbalance concerning urban highways and urban renewal insofar as residential households are concerned.¹ It therefore seeks to (1) identify the nonconstruction costs which residential households are forced to bear by these two programs, (2) analyze which of these costs should be paid for by public authorities, (3) estimate the magnitude of certain key costs for which compensation should be paid but is not, and (4) indicate some policy implications of the analysis.

II. The Basic Principle of Compensation

People who are forced to move from their homes because of highways or urban renewal, or who suffer from environmental changes caused by these public outputs, thereby sustain certain financial and other losses. These losses are essentially personal sacrifices which they are compelled to bear for the good of the public in general, and of the beneficiaries of individual public projects in particular. It is therefore the duty of the public authorities concerned to compensate them for these sacrifices. Such compensation should place them in substantially the same status, in terms of economic and other well-being, that they occupied before being affected by the projects concerned.

Thus, the basic idea behind compensation consists of "making people whole" in relation to the injuries they sustain from public projects (other than paying their share of the input costs concerned, presumably through various taxes). Consequently, the losses imposed upon them should be identically offset by compensation provided to them, except to the extent that those losses are offset by the benefits provided by the project involved.

In some cases, this basic principle must be substantially modified in practice. Nevertheless, it is the fundamental concept on which the law concerning compensation is based (insofar as a nonlawyer like me can determine), and upon which my analysis will build.

¹ Other similar losses are imposed upon commercial, industrial, and institutional establishments by urban highways and urban renewal. Although many of the principles discussed in this paper also apply to losses sustained by these establishments, we have not considered any such losses or proper public policies regarding them in this paper.

III. The Kinds of Losses Imposed upon Residential Households by Urban Highways and Urban Renewal Other Than Construction Costs

The construction of major highways and urban renewal projects in urban areas imposes three basic types of losses upon residential households living in those areas, other than the losses resulting from paying for the costs of construction. These are (1) losses imposed upon households directly displaced by such projects, (2) losses imposed upon a variety of households because of uncertainty and delays connected with clearance and construction, and (3) losses imposed upon households not residing in the right-of-way or clearance area and so not displaced, but nevertheless affected by the projects concerned. These types of losses are listed on accompanying pages.

Some of the individual losses listed are relatively self-explanatory, but others require considerable clarification. Therefore, each is discussed briefly in the following paragraphs.

Losses Imposed upon Residential Households by Displacement Itself

DISRUPTION OF ESTABLISHED RELATIONSHIPS. Many households residing in any given neighborhood develop a number of well-established relationships with other persons, places, and firms in that area. These relationships include family ties and friendships with others living nearby, credit relationships with stores or banks, and habitual patterns of social and commercial intercourse. In some cases, particularly those of elderly households, these relationships represent the cumulative result of a large investment of time and energy in personal activity.

When these households are compelled to move, their relationships are often disrupted. The disruption can be either minor (as when the displaced household merely moves close by) or more serious or even fatal to the relationships concerned (as when the displaced household must relocate far away). The resulting losses are likely to cause the greatest hardship for elderly people, since many no longer have the energy or the financial means to make the new investments required to establish similar relationships elsewhere.

THE KINDS OF LOSSES IMPOSED UPON RESIDENTIAL
HOUSEHOLDS BY URBAN HIGHWAY AND URBAN
RENEWAL PROJECTS (OTHER THAN PAYING
FOR CONSTRUCTION COSTS)

A. LOSSES IMPOSED UPON RESIDENTIAL HOUSEHOLDS BY DISPLACEMENT ITSELF

1. Disruption of established personal and other relationships
 2. Losses due to the taking of real property
 3. Losses due to home financing arrangements, especially contract buying
 4. Costs of seeking alternative housing elsewhere
 5. Costs of paying for alternative housing elsewhere
 6. Moving costs
 7. Higher operating costs of residing elsewhere
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B. LOSSES IMPOSED UPON RESIDENTIAL HOUSEHOLDS BY UNCERTAINTIES AND DELAYS

8. Deterioration in the quality of life during waiting periods
 9. Inability of property owners to sell property at reasonable prices during waiting periods
 10. Declines in the value of properties during waiting periods because of neighborhood and individual property deterioration
 11. Losses of income suffered by owners of rental property because of the departure of tenants before actual taking occurs
 12. Costs of maintaining property after its fair market value has been established for purposes of litigation
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C. LOSSES IMPOSED UPON RESIDENTIAL HOUSEHOLDS
NOT DIRECTLY DISPLACED BUT LOCATED IN SURROUNDING AREAS

13. Higher taxes paid because of increased city costs to counteract vandalism and other deterioration in the area
14. Disruption of local communications through the blocking of streets
15. Reduction in the quantity and quality of commercial and other services available in the area because they have left or been displaced
16. Reduction in employment opportunities and increased costs of traveling to work because firms have been compelled to move elsewhere or have gone out of business
17. Spillover effects of deterioration in the clearance areas during the waiting periods
18. Higher rents or housing prices because of increased competition for housing among low-income households resulting from displacement
19. Reduction in the efficiency of community facilities through
 - a. Loss of patronage if displacement has removed customers
 - b. Overcrowding if displacement has removed alternative sources of supply (such as a local school)

(continued)

20. Losses in property values due to changes in the accessibility of various parts of the metropolitan area
 21. Losses resulting from congestion, vibration, noise, street blockage, dust, and other negative factors involved in the process of constructing the new highway or urban renewal project
 22. Losses in property values due to increased ugliness, noise, air pollution, or other adverse effects of the completed highway or urban renewal project
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To a great extent, losses of this type are psychological rather than economic.² Moreover, they are often encountered in the normal process of urban living even when no displacement by public projects occurs. Therefore, moves caused by displacement resulting from public projects sometimes merely represent an acceleration in time of moves that would occur anyway. In such cases, the losses accurately attributable to the public improvements concerned are only those due to accelerating the time of movement by whatever period is concerned.

LOSSES DUE TO THE TAKING OF REAL PROPERTY. The creation of urban highways and renewal projects involves public acquisition of many parcels of land, both vacant and improved, for the loss of which the owners are compensated by the government. Normally, they are paid the "fair market value" of the real properties taken. Fair market value is defined as the money price which a willing buyer would pay a willing seller under current market conditions if neither was under any compulsion to complete a transaction, both were fully informed about the nature of the property and its environment, and the property was exposed to the market for a reasonable length of time. In essence, fair market value is determined by establishing what the property concerned would have brought if sold on the free market at the time the legal proceeding is brought against the owner.

LOSSES DUE TO HOME FINANCING ARRANGEMENTS. Urban highways and renewal projects are frequently located in relatively low-income neighborhoods. In such neighborhoods, households are often purchasing homes through the contract method of financing. When this occurs, the occupant normally purchases the property at a contract price far above its fair market value. The price he pays has been

² A discussion of such losses is presented by Marc Fried in "Grieving for a Lost Home: Psychological Costs of Relocation," in James Q. Wilson (ed.), *Urban Renewal: The Record and the Controversy*, Cambridge, Mass., 1966, pp. 359-379.

inflated in part as a compensation to the seller for accepting a very low down payment (if any), and for dealing with a buyer who has a credit standing inadequate for obtaining a normal mortgage loan.

In contract sales, the seller often retains legal title to the property until the buyer has made a great many payments. As a result, when public authorities purchase a property at its fair market value, they frequently pay the original seller, rather than the contract buyer. Since the buyer purchased the property at an inflated price, the fair market value paid by the government is almost always less than this purchase price.

In such cases, the seller receives less from the government than the buyer had agreed to pay him for the property. He may therefore hold the buyer liable for the difference. If so, the buyer may find himself still paying for the property—even after he has been ejected from it, and even though he himself did not receive any payment for it. This arrangement is clearly unjust; yet it is perfectly legal under present legislation in many states.

On the other hand, the buyer can rarely be forced to pay the difference between fair market value and the sales price under these circumstances. Either he does not have enough money for a court judgment against him to be meaningful, or else the court will refuse to compel him to pay under the circumstances. If the authorities are aware of a contract purchase and know the name of the buyer, they will often make both buyer and seller parties to the condemnation suit. This allows the court to wipe out all of the buyer's residual liability as part of the taking action. But the authorities do not always know contract sales are occurring, since there may be no legal record concerning the buyer until title actually passes.

When the government takes property obtained under a contract sale after the buyer has obtained title, the government's payment may be less than what he still owes on the property (which he has usually by then refinanced with a mortgage). However, this is less likely than the first occurrence described above.

In either circumstance, the government's taking causes an uncompensated loss to the contract buyer. He has been purchasing the property through monthly payments aimed at building up an equity in it. Yet when that property is taken by the government, the payment made for it is so small in comparison to his purchase price that all or nearly all of his equity is eliminated. This negates any efforts he has made in the well-established American tradition of saving money and investing it in the purchase of a home.

COSTS OF SEEKING ALTERNATIVE LOCATIONS. Persons displaced by highways must seek out alternative residential quarters. This requires the investment of time and sometimes money. Some persons are compelled to perform this search during working hours, and to take on expenses they would not otherwise incur (mainly travel costs).

COSTS OF PAYING FOR ALTERNATIVE LOCATIONS. Anyone forced to move his residence must immediately find another residence elsewhere. In theory, if he initially lived in a residence worth \$5,000, he should be able to move to another worth \$5,000 and thereby find himself in substantially the same position he was before displacement. But in reality, it is almost always impossible for residents in low-income neighborhoods to find alternative housing elsewhere at the same low cost they received from the government (if they were owner-occupants) or at the same rent they formerly paid (if they were renters).

The fair market value of low-cost homes condemned for highway projects is normally lower than the current cost of similar dwellings elsewhere for several reasons. First, the units condemned are often in run-down and dilapidated condition. Second, they were usually built many years ago. Therefore, they are obsolete in design, layout, and amenities. Third, they are often located in the most undesirable neighborhoods in the city (that is frequently why clearance is occurring there). Most housing units elsewhere are therefore worth more on the market. As a result, the owners of the units to be demolished cannot take the payments they receive from the government and buy comparable housing elsewhere without incurring additional cost. Or, persons formerly renting homes which are demolished cannot find other homes elsewhere available at equally low rents.

An example of this situation was recently revealed by a study made of 112 displaced owner-occupied households in Baltimore. On the average, each white household involved had to pay \$2,500 more for comparable housing elsewhere than it received from the government for its original home, each nonwhite household, \$3,900. Since the original payments involved were \$5,700 per household on the average, the "excess relocation cost" of \$3,000 represented an average 53 per cent extra burden upon the households concerned.³

The degree of hardship resulting from these circumstances is greatest among low-income households, especially those composed of older

³ Unpublished letter describing the results of a survey conducted by the Baltimore Urban Renewal and Housing Agency.

people. Persons owning expensive homes which are taken by the government can find comparable housing elsewhere much more easily. New units of similar quality and price are being constructed each year. Moreover, such persons are generally more competent and experienced in seeking alternative housing. It is true that construction costs have been rising so fast recently that even families in high-priced homes cannot easily take the fair market value of their older homes and buy new ones of comparable size, quality, and location. But it is certainly easier for them to come close to this objective than it is for low-income households. Little new low-cost housing is ever built in the United States except in public housing programs. And those programs fall far short of meeting the demand or the need for low-cost units. Consequently, there is a perpetual shortage of low-cost housing in most large urban areas.

The supply of such housing becomes enlarged only through the gradual decline in the price of older existing units until they are economically accessible to very low-income households—the “filtering down process.” But large-scale in-migration of low-income households into a given city, or a slowdown in new construction such as that caused in recent years by high interest rates, can keep the demand for existing older units, and therefore their prices and rents, high. Hence they remain beyond the economic reach of most low-income households. In such a situation, poor persons who have been given only the fair market value of their old homes find themselves unable to purchase comparable housing elsewhere—or any housing at all—for the same amount. For older persons no longer able to earn income, this can be a tragic hardship. Often they have worked hard to pay off all debt on the homes they were in so that those homes would provide them with shelter for life. Then the government forces them out of their homes, but pays them too little to buy any other housing elsewhere. They have neither the savings nor the earning capacity to pay the “excess relocation cost” necessary to find decent housing, and may be driven into destitution through no fault of their own.

By failing to pay residential households enough compensation so that they can move into comparable housing elsewhere without loss to themselves, the government is essentially passing some of the true cost of the public improvement onto those whom it displaces. Moreover, this practice tends to injure most severely precisely the persons least able to bear any injury at all.

To some extent, the higher cost of alternative housing accommodations results from the improved quality of those accommodations relative to the original units occupied by displaced households. Nu-

merous surveys show that most such households relocate in dwelling units which would be classified as "standard" under criteria developed by the Department of Housing and Urban Development. Many of these households were displaced from dwelling units which would be considered "substandard" by the same criteria. To the extent that these displaced households live in better accommodations, it could be argued that the higher costs they pay do not constitute a loss imposed upon them by displacement.

On the other hand, this upgrading of housing quality is not necessarily the result of voluntary choice. Prior to displacement, they may have been living in substandard units which were relatively inexpensive because they chose to minimize the share of their incomes going to housing. After displacement, the share of their incomes devoted to housing almost always rises, whether they want it to or not. Insofar as improved housing quality is a result of involuntary restriction of their choice, it is not clear that this can be considered a pure benefit not requiring compensation. However, the improvement in housing quality which accompanies increased housing cost does constitute a complicating factor in any attempt to evaluate how much compensation should be provided in addition to fair market value.

This complicating factor is especially critical regarding renter households. Under present practices, displaced renters receive no compensation at all (except for moving costs in some states). A study of real property acquisition in federally assisted programs made for the Congressional Committee on Public Works in 1964 indicated that about 58.8 per cent of all displaced households and individuals were non-owner occupants.⁴ A study of over 2,100 relocated households conducted by the Census Bureau showed that a majority of rent-paying households paid higher rents after displacement than before. Moreover, the fraction of their incomes devoted to rents rose, with the median shifting from 25.1 per cent to 27.7 per cent. The proportion of renter households paying over 20 per cent of their incomes for rent rose from 67 per cent to 76 per cent.⁵ Thus, there is no doubt that

⁴ Select Subcommittee on Real Property Acquisition, Committee on Public Works, U.S. House of Representatives, *Study of Compensation and Assistance for Persons Affected by Real Property Acquisition in Federal and Federally Assisted Programs*, Committee Print No. 31, 88th Congress, 2nd Session, Washington, D.C., 1965, p. 21. Henceforth this document will be referred to in both the text and footnotes as the Public Works Committee Report.

⁵ U.S. Housing and Home Finance Agency, "The Housing of Relocated Families: Summary of a Census Bureau Survey," in Wilson, *op. cit.*, p. 344. Henceforth this document will be referred to as the Census Bureau Relocation Study.

displacement generally forces renting households to pay more for rent, even though many are paying very high fractions of their income for housing already. (In the Census Bureau sample, over 35 per cent of the nonwhites and over 24 per cent of the whites were paying *more than 35 per cent of their incomes for rent* both before and after displacement.)⁶ Yet displacement also caused them to improve the quality of their housing, and even to occupy slightly larger units.⁷ Deciding to what extent these households were compelled to bear "excess relocation costs" and to what extent they were merely upgrading their housing is certainly not easy. Yet there can hardly be any doubt that displacement forced these households to bear at least some uncompensated costs which they would have avoided if they had been able to do so.

MOVING COSTS. Clearly, transporting personal and other belongings from the dwelling acquired by highway authorities to the new dwelling costs resources. This fact is recognized by the law in most states. However, the Public Works Committee Report showed that only about 49.5 per cent of the households and individuals displaced per year by all federally related programs received payments for moving costs.⁸ This study also estimated that only about 44 per cent of the families and individuals likely to be displaced by federally related programs after 1964 would be eligible for moving-cost payments under the laws in force at that time. Thus, about 54 per cent of the owners and 59 per cent of the nonowners forced to move would not be eligible for such payments, although they would certainly incur moving costs.⁹

The average size of payment made to displaced families or individuals for moving expenses was \$119 under the highway program. This was larger than the average of \$64 under the urban renewal program or \$36 under the low-rent public housing program.¹⁰

HIGHER OPERATING COSTS AT ALTERNATIVE LOCATIONS. In many cases, living expenses (other than housing costs) at the location to which displaced persons move are higher than at their original location. This is particularly likely concerning commuting costs if they have had to move farther from their existing employment. The Census Bureau Relocation Study indicated that 37 per cent of the displaced workers surveyed who had fixed places of employment stated they had

⁶ *Ibid.*

⁷ *Ibid.*, pp. 340-341, 347-348.

⁸ Public Works Committee Report, p. 24.

⁹ *Ibid.*, p. 25.

¹⁰ *Ibid.*, p. 37.

to spend "much more time" commuting to work than they did before relocation. Only 13 per cent reported having to spend much less time; the remaining 50 per cent spent about the same time commuting.¹¹ Moreover, households which have upgraded their housing involuntarily may encounter higher operating costs, such as greater heating bills and higher property taxes.

Losses Imposed upon Residential Households by Uncertainty and Delays

In many cities, considerable time elapses between the first designation of a specific location for a highway or an urban renewal project and the actual taking of property in that area. Moreover, even before official designation, a long period of discussion about where each project might go often takes place. During the entire time from initial discussion to actual taking, the area concerned is strongly affected by both the possibility and then the actuality of future clearance. Owners of property in the area are extremely reluctant to make costly improvements because they believe their property will soon be demolished. Moreover, people outside the area are unwilling to purchase property in it because they could only use it for a short period of time. Thus, *the mere possibility that a highway or an urban renewal project will be created in a certain neighborhood produces a severe disruption of the normal processes of property turnover and maintenance in that neighborhood.* Furthermore, once it has become relatively certain that a highway or project will be constructed in an area, both commercial and residential tenants begin moving out. Few others can be found to replace them. This causes a decline in rates of occupancy in both residential and commercial property, and depresses the incomes of persons owning that property.

In many cases, all these consequences result from the mere discussion of a given neighborhood as a potential right-of-way or project site. But such discussion may last for several years before any specific area is officially designated. So these consequences may seriously affect a neighborhood which is not ultimately selected as the official location. The owners who suffer such losses are not eligible for any compensation from the government, even though it caused their losses.

Specifically, property owners and residents in areas under discus-

¹¹ Census Bureau Relocation Study, p. 350.

sion or actually designated as potential rights-of-way or project sites normally suffer the following losses due to delay:

DETERIORATION OF THE QUALITY OF LIFE IN THEIR NEIGHBORHOOD. This occurs because many store operators depart, reducing the variety of facilities available, and many residents depart, reducing the variety of persons living in the area. Furthermore, such departures create vacancies which encourage vandalism, crime, and physical dilapidation.

INABILITY OF PROPERTY OWNERS TO SELL THEIR PROPERTY AT REASONABLE PRICES. Under normal circumstances, when a family head is, say, transferred to another city, he sells his property on the market for its fair market value. But when a given neighborhood is under the cloud of impending demolition, few persons are willing to pay what was formerly the full fair market value for such property. Property owners are therefore confronted with a sharp depression in the prices they are able to receive for their homes. They are either forced to sell at these depressed prices because they must move, or forced to remain in the area because they are unable to get a price commensurate with their investment in the property. Persons who sell and move away also become ineligible for receiving any compensation when the highway authorities begin purchasing property. Thus, the financial losses they have been forced to endure by the highway are completely ignored under current legal processes.

DECLINES IN PROPERTY VALUE BECAUSE OF THE NEIGHBORHOOD DETERIORATION OCCURRING BETWEEN INITIAL DISCUSSION AND ACTUAL TAKING. For the reasons cited above, many properties decline in value once an area has been designated or even begins being discussed as a highway or urban renewal site. But in most states, the date at which fair market value is established is the date at which court action is taken by the government to purchase the property concerned. Many years may have elapsed from the time discussions of this site began to this legally established date. So the neighborhood may have sharply deteriorated through the mere "announcement effect" of the highway or project. Nevertheless, some sales probably have occurred in this area after such deterioration was far advanced. These sales then become the basis upon which appraisers establish fair market value, since appraisers use them to determine what willing buyers and willing sellers are actually paying for property

in that area. Thus, property owners often receive from the government far less for their property than they paid for it, and certainly less than it was worth at the beginning of the process of discussion.

It is true that some owners of dilapidated and deteriorated residential property look forward to takings by the government. Such takings may "bail them out" of having to invest large sums in bringing their sub-standard properties up to conformance with local building and housing codes. For these owners, receiving even a relatively depressed price is a blessing in disguise. However, owners of code-violating properties are generally absentee landlords who are reasonably well-off economically, since owner-occupants generally maintain their property far better than absentee landlords. Thus, the small owner-occupants—particularly those possessing or buying single-family dwellings—suffer most from this.

LOSSES OF RENTAL INCOME. Owners of residential income property are compelled to receive lower incomes than normal because many of their tenants depart, and others are unwilling to replace them—unless rents are reduced drastically. Moreover, higher maintenance costs caused by vandalism induced by the resulting vacancies further reduce the net income from such properties during the waiting period.

COSTS OF MAINTAINING PROPERTY AFTER IT HAS BEEN APPRAISED. The appraised value of the property is based upon its state of repair at the time of appraisal. But in some cases several months may elapse between the appraisal and the legal action which finally takes the property. During this period, landlords may have to make certain vital repairs which do not appear in the appraised value and for which, therefore, they receive no compensation.

Losses Imposed upon Residential Households Not Directly Displaced But Located in Surrounding Areas

The impact of a major new expressway or urban renewal project is hardly confined to those persons displaced by its construction. Many other persons living or owning property nearby sustain losses because of the new improvement (and others gain benefits). The most significant of such losses can be described as follows:

HIGHER TAXES BECAUSE OF GREATER LOCAL GOVERNMENT COSTS. The local government may incur added costs to prevent

vandalism, increase police protection, and pick up additional debris caused by the deterioration of the neighborhood during the waiting period. These costs eventually cause a rise in property taxes or a reduction in other local government expenditures. They may fall on some of the displaced households themselves before they move, but their primary impact is upon the remainder of the households in the city.

DISRUPTION OF LOCAL COMMUNICATIONS BY BLOCKING MOVEMENT ON LOCAL STREETS. Unless a major highway is constructed on stilts, it normally blocks movement on a large number of the local streets formerly crossing its right-of-way. Urban renewal projects frequently involve the closing of local streets and the rerouting of traffic on more roundabout paths. Both these consequences decrease convenience of movement for local residents and others passing through.

REDUCTION IN THE QUANTITY AND QUALITY OF COMMERCIAL AND OTHER LOCAL SERVICES. Construction of a highway or an urban renewal project often adversely affects the quality of life in nearby neighborhoods by removing some of the facilities which served them. These can include commercial establishments (such as stores and restaurants), recreational areas, aesthetic attractions (such as trees), local transit service (disrupted by the blocking of local streets), cultural facilities (such as churches) and public education facilities. Not only may some of these facilities be removed through demolition, but also others lying outside the clearance area may abandon the neighborhood because of its reduced population, or may deteriorate in quality because of lower levels of patronage.

In many cases, the facilities removed were located in deteriorating or dilapidated structures. Therefore, an upgrading of the physical condition of the average commercial establishments may result. Nevertheless, a reduction in the number of such establishments and their variety always decreases the choice available to remaining residents.

When the facilities eliminated are in some way unique (such as an excellent school or a park), their removal may constitute an irreparable loss to the community, greatly reducing its over-all attractiveness. Under present legislation, no provisions are made for compensating the remaining community for losses of this kind.

REDUCTION IN EMPLOYMENT OPPORTUNITIES AND INCREASED COSTS OF COMMUTING. When industrial, commercial, govern-

mental, or other employment-providing installations are displaced from an area, persons who formerly both lived and worked there are compelled to become unemployed or to travel farther for available jobs. Since most displaced establishments providing employment move somewhere else, loss of employment is usually not required. However, a relatively high proportion of small retail establishments in low-income areas forced to relocate are not reopened elsewhere. This proportion may run as high as 40 per cent, and usually exceeds 20 per cent.¹² The jobs formerly provided by these establishments are completely removed from the market. Since such establishments normally employ local residents, the negative employment effects are concentrated in the surrounding area. More significant in terms of number of persons affected is the increase in travel costs to work imposed upon persons who formerly both lived and worked in the neighborhood.

SPILOVER IMPACT OF THE DETERIORATION IN THE CLEARANCE AREA. As noted above, significant deterioration often occurs in the area where a highway or an urban renewal project will be located during the interval between initial announcement of its location and its final construction. The adverse impacts of such deterioration may spill over into surrounding blocks. This may reduce property values there, at least until the new improvement is actually in being.

INCREASED COMPETITION FOR HOUSING AMONG LOW-INCOME HOUSEHOLDS. When major public projects are constructed in relatively high-density low-income neighborhoods, they may require the destruction of thousands of dwelling units within a given city. Such destruction causes a net decline in the number of housing units economically available to relatively low-income households. If this effect is not offset by increases in the inventory of housing available to low-income households elsewhere in the metropolitan area, the same number of such households as before will be competing for a reduced supply of housing units available in the price ranges they can afford. Theoretically, this will tend to raise the rents paid by *all* low-income households. The extent to which this theoretical effect is quantitatively significant in reality will depend upon the factors listed below.

a. *The number of housing units destroyed by the public project in comparison with the total number of units available to low-income households in that area.* Statistics concerning public projects in Baltimore illustrate the nature of this effect. In 1960, there were an esti-

¹² Public Works Committee Report, p. 30.

mated 95,000 housing units within the city limits of Baltimore occupied by low-income households (that is, those with incomes low enough to be eligible for public housing). About 64 per cent of these were renter-occupied and 36 per cent were owner-occupied.¹³ In the period from 1951 to 1964, about 10,000 housing units in Baltimore were demolished because of various public programs, including highways and urban renewal.¹⁴ Data concerning how many of the households displaced were low-income households are not available. An informed but arbitrary estimate is that 75 per cent had low incomes. In that case, about 7,500 low-income housing units were demolished in this thirteen-year period, or about 7.8 per cent of the entire low-income housing inventory as of 1960. This is slightly less than one per cent per year. Consequently, such demolition would not seem likely to exert a very large upward pressure on rents in the remaining inventory.

b. *The degree to which displaced households actually have access to low-income housing units elsewhere in the metropolitan area.* In most large cities, racial segregation effectively prevents many Negro households from having access to relatively low-rent or low-cost units located in all-white neighborhoods. Yet a high proportion of the households displaced by public programs are Negro. For example, the Census Relocation Survey selected a sample by getting the names of all families relocated by 163 local public agencies in the United States from June 1 through August 31, 1964. Of the 2,300 families finally interviewed from this sample, 52.6 per cent were nonwhite.¹⁵ Since this sample includes local public agencies in many smaller communities, the proportion of nonwhites is probably much higher in larger cities. This conclusion is borne out by data from the particular larger city I have been citing. From 1951 through 1964, 89 per cent of all households displaced by public projects in Baltimore were Negro households.¹⁶ In 1960, the total inventory of housing in Baltimore occupied by low-income Negro (nonwhite) households amounted to about 43,000 units.¹⁷ In the period from 1951 to 1964, about 8,900 Negro households were displaced by public programs. Assuming one housing unit was demolished for each displaced household, this means that such demolition equalled about 20.6 per cent of the entire housing inventory occupied by low-income Negroes in 1960. The average of

¹³ U.S. Census Bureau.

¹⁴ Baltimore Urban Renewal and Housing Agency, *Displacement and Relocation—Past and Future* (for the period 1951 through 1964), March 1965. Henceforth this document will be referred to as the BURHA Report.

¹⁵ Census Bureau Relocation Study, p. 337.

¹⁶ BURHA Report.

¹⁷ U.S. Census Bureau.

890 units demolished each year equaled about 35 percent of the additional number of nonwhite households entering the Baltimore housing market each year because of net nonwhite population growth in the decade from 1950 to 1960.¹⁸ Thus, when data for the *key segments* of the housing market are examined in isolation, the possibility that demolition connected with public programs might cause upward pressure on rents and prices in the remaining *relevant sections* of the housing inventory seems much greater than if data for the housing market as a whole are used.

c. *The rate at which the supply of housing available to low-income households (and in particular, those being displaced) is being expanded through new construction or the "filtering down process."* The third factor in turn depends to a great extent upon whether the local housing market is in a relatively "loose" or "tight" condition. A "loose" housing market is one in which new units are being added to the total inventory faster than new households are entering or being formed in the area. As a result, the total available housing supply is increasing more rapidly than total demand, causing a downward pressure on both prices and occupancy rates. Under these circumstances, the "filtering down process" works relatively (but not absolutely) rapidly. Households in the middle- and upper-income ranges have many housing alternatives open to them. Therefore they more quickly upgrade their housing, thereby making a larger number of units available to lower-income families.

Conversely, a relatively "tight" housing market is one in which the demand for housing is rising faster than new supply is being created through construction (net of demolition). In such a market, increased competition for both the new housing units being created and the existing housing inventory creates an upward pressure on rents, prices and occupancy levels. Vacancies decline, and middle- and upper-income households find it more difficult to upgrade their housing. As a result, fewer existing units "filter down" to low-income households. Then demolition of some of the housing units already available to such households because of a highway or a renewal project will have a far more serious impact upon rents for low-income households than when the market is "loose."

Low-income households are particularly vulnerable to shifts in the relative "tightness" of the housing market. They occupy the residual part of the housing inventory not claimed for use by higher-income households. Since the latter have more money with which to bid for

¹⁸ U.S. Census Bureau.

housing, their shelter needs are satisfied in the best part of the inventory. Moreover, new housing is almost always added to the upper-income end of the market, because cultural and other restrictions embodied in building codes and zoning regulations prevent the construction of new housing at low enough cost so that low-income households can afford it.¹⁹ These two considerations emphasize the dependence of low-income households upon the "filtering down process" as a source of additional available housing supply.

The housing situation of low-income households has been worsened in the past two years by a sharp drop in the number of total new housing units started in the United States. In the period from 1962 through 1965, an average of 1.54 million new housing units were started each year. But in 1966 only 1.25 million units were started, and in 1967 only 1.29 million units. This reduction of about 18 per cent in new housing starts occurred because of higher interest rates in the economy, rather than any reduction in the demand for new housing. In fact, the demand for housing has been stimulated by high-level prosperity. The resulting combination of rising demand and restricted additions to supply has created a very "tight" housing market in most metropolitan areas. This has caused a decline in vacancies and an upward pressure on rents at all levels of the market. *Consequently, the "filtering down process" has recently become a less efficient method of making new housing units available to low-income households.*

The impact of a significant demolition of low-income housing units in a given neighborhood is magnified by the relatively restricted mobility of low-income households. Numerous studies have shown that members of many low-income households typically spend much of that part of their lives lived in the city within areas circumscribed by a very few blocks. As a result, they are relatively unfamiliar with

¹⁹ The only exception is public housing. It is just as expensive as private housing to build, but is subsidized sufficiently so that low-income households can afford it. But the supply of public housing in the United States is very small in comparison with the number of low-income households. Since 1937, about 780,000 low-rent dwelling units had been created by public housing programs through 1966. However, in 1966 there were over 11 million households classified as having incomes below the "poverty level" as defined by the Social Security Administration. Thus there were approximately fourteen times as many poor households (including both families and individuals) as there were public housing units in 1966. The ratio of poor households to public housing units is considerably lower within certain central cities. Nevertheless, it still is fair to say that the number of public housing units in any major city in the United States is far below the number of households either eligible for such units, or desirous of living in them. This is confirmed by the long waiting lists for entry into public housing in most cities.

housing alternatives available in distant parts of the metropolitan area. This is particularly true of Negroes because racial discrimination excludes them from many portions of the housing market. When such low-mobility households are displaced from their homes, they restrict their search for new housing to other areas nearby. Thus, *the increased competition for low-cost housing created by demolition for public projects does not spread itself out evenly across the entire housing market. Rather it becomes focused most sharply on other relatively low-income neighborhoods in the immediate vicinity of the clearance areas.* Consequently, demolition of what seems to be a relatively small number of housing units in comparison with the total number in the metropolitan area may still have a significant impact upon rents and occupancy in low-income neighborhoods surrounding the demolished houses.

However, it is extremely difficult to measure this impact accurately. The effects of the pressure on rents and prices from this source cannot be separated from similar pressures from other sources (such as a general rise in the price level).

REDUCTION OF THE EFFICIENCY OF COMMUNITY FACILITIES SERVING SURROUNDING AREAS. Schools, churches, stores, and other facilities near the clearance areas may be forced into less efficient operation by both the demolition of residences and the creation of the new projects. This can occur for either one of two opposite reasons. First, the reduction in their clientele or patronage may cause them to operate at an inefficiently low scale. This can adversely affect not only commercial establishments like retail stores, but also churches, social organizations, public schools, and medical facilities. This occurs when a significant proportion of the clientele of an organization is removed from the area, but the organization itself remains because it lies outside the clearance area, or the organization is cut off from convenient accessibility by its patrons. In contrast, if a public facility lies within the clearance area and is demolished, the diversion of its former load onto some nearby facility may overload that facility. An example would be removal of a public school and the diversion of its pupils to another already crowded school nearby. In either case, the reduced efficiency of the facilities concerned imposes a cost upon residents who live near but not within the clearance area.

CHANGES IN RELATIVE ACCESSIBILITY. The purpose of a major highway is to improve the mobility of a large number of persons

residing within the metropolitan area concerned. By altering the relative accessibility of different parts of the metropolitan area, such a highway has a dramatic impact on land values. The values of certain sites rise sharply (such as sites lying near major interchanges and easily accessible to them). The values of other sites fall just as sharply (such as sites lying along former main arteries which lose traffic once the new highway is opened). These losses occur in all parts of the metropolitan area, not just in neighborhoods through which the highway itself passes. This impact is unique to highways, and does not result from urban renewal projects.

LOSSES RESULTING FROM THE PROCESS OF CONSTRUCTION. Building a major public improvement often has a very disruptive effect upon the immediate vicinity. Local traffic is impeded both by added congestion and by the blocking of movement due to construction. The local government has to pay increased costs for traffic control and for the creation of alternative access paths. Businesses on surrounding streets lose sales because access to their property is diminished and heavy traffic congestion discourages patronage. Noise and vibration associated with construction may disrupt productive processes in nearby industries and generally lower the quality of the environment. Under present laws, no compensation is paid for all of these losses, even when they are substantial.

LOSSES RESULTING FROM INCREASED UGLINESS, NOISE, AIR POLLUTION, OR OTHER ADVERSE ENVIRONMENTAL CHANGES. Public projects—particularly highways—often produce certain adverse changes in their immediate environment which reduce property values of adjacent parcels. For example, major expressways generate constant noise, higher levels of localized air pollution from exhaust fumes, the glare of lights at night, and increased congestion on some local streets near interchanges (but reduced congestion on others). Urban renewal projects may cause greater traffic congestion because of a higher proportion of car use among the new residents than the original ones and diversion of traffic. Even the sheer aesthetic effect of a major public improvement may influence nearby property values—usually downward in the case of major highways, and upward in the case of completed renewal projects (though perhaps downward during the waiting period before such projects are finished).

Distinguishing Between Real Resource Losses and Redistributive Effects

Some of the 22 nonconstruction costs cited above represent real absorptions of resources caused by highway and urban renewal projects. Examples are moving costs, losses caused by the process of construction, and costs generated by increased vandalism during periods of delay. But certain other costs cited previously do not involve resource absorption. Rather, they are redistributions of wealth from some households to others. Examples are higher rents or housing prices because of increased competition for housing among low-income households resulting from displacement, and losses in property values due to changes in the accessibility of various parts of the metropolitan area. For each household which suffers from these costs, other households gain corresponding (though not necessarily identical) benefits. Thus, when rents for low-income households rise, tenants suffer but landlords benefit. And when property values fall in some area that has reduced relative accessibility, they rise in another area where such accessibility has been improved by the project concerned.

Welfare economists have long argued that these two kinds of costs must be distinguished from each other in making public decisions. Actions that absorb resources represent *real costs* that must be taken into account in deciding the allocative *efficiency* of undertaking some project. But actions that merely redistribute resources from one household or group to others represent *distributional effects* that are irrelevant to efficiency, as that term is used by welfare economists. Rather, such distributional effects are relevant to the *equity* of the project concerned.

All welfare economists agree that efficiency should be a key factor in determining public (and private) investment decisions. But whether such decisions should be based solely upon efficiency grounds, or upon both efficiency and equity grounds, is a matter of some dispute. In my opinion, equity effects are just as important as efficiency effects in deciding whether to undertake a project. However, exactly how these two types of effects should enter into particular decisions is an extremely complex subject which cannot be fully discussed in this paper.

In fact, this paper focuses exclusively upon the questions of equity and justice relevant to residential households which arise from the nonconstruction costs generated by highway and urban renewal proj-

ects. But the redistribution effects relevant to equity can result from *both* actions that absorb resources and those which merely shuffle them around among different households. Therefore, I have had to discuss both kinds of costs or losses here. However, I have not distinguished between them insofar as their relationship to resource-allocation efficiency is concerned. I am not concerned here with the allocative efficiency of highway or urban renewal projects at all, and will not discuss or refer to that important and complex subject any further.

IV. Application and Modification of the Basic Principle of Compensation

Why Compensation Should Not Be Paid for All Losses

In reality, it is neither desirable nor possible to provide direct public compensation for all of the costs and losses discussed in the preceding section. In some cases, the positive impacts of the highway or urban renewal project tend to offset these negative losses insofar as individual households are concerned. Therefore, the public improvement inherently tends to "make people whole" even if no specific public compensation is paid to them. In other cases, there is no practical way of "making people whole" for the losses they suffer. Finally, there are a variety of losses which it is proper for the public to disregard for several different reasons. All these factors are discussed briefly below.

THE POSSIBILITY THAT SOME LOSSES WILL BE OFFSET BY BENEFITS FROM THE PUBLIC IMPROVEMENTS. As mentioned above, many land parcels gain greatly in value because of the increased accessibility provided by each new highway, or the local environmental improvement provided by most new urban renewal projects. This effect may offset some of the losses caused by the public improvement concerned. For example, increased ease of access to distant shopping centers may compensate automobile-driving local residents for the loss of some local community facilities. (Since most low-income residents do not own automobiles, this benefit has a relatively restricted distribution, however.) Similarly, if a completed urban renewal project greatly increases the number of high-income households in the neighborhood, it may attract new and more diverse shops and improve the quality of

services available in the area. Also, the elimination of low-cost residences and commercial facilities through clearance tends to reduce competition among those remaining, and may thereby enhance their value.

It is certainly true that the exact distribution of these benefits is not likely to be the same as the exact distribution of the costs and losses described earlier, even for a limited set of specific parcels (such as those near the project itself). Nevertheless, public authorities are legitimately entitled to take these benefits into account when trying to decide which types of losses should be directly compensated for.

WHY SOME LOSSES MUST BE CONSIDERED INESCAPABLE RISKS OF PROPERTY OWNERSHIP. Dynamic change is one of the fundamental characteristics of a free enterprise economy. It inevitably produces unexpected and unforeseeable increases in the value of some properties, and equally unexpected and unforeseeable declines in the values of others. To some extent, such changes must be regarded as inherent in a successful free enterprise system. Hence there is no reason why the government or anyone else should guarantee continuance of existing property values as of any given moment.

It is true that governments adopt many policies specifically aimed at stabilizing values for whole classes of property, or entire areas. For example, zoning laws have this function. Yet even zoning laws do not protect the owners of every individual parcel from possible variations in value due to dynamic factors which influence the relative desirability of his neighborhood, or even of his parcel (such as the creation of a weird modern-design house by the man across the street).

In reality, major public improvements constitute only one of the many factors which change property values. Others include purely private developments (such as new housing or industrial plants), natural events (such as hurricanes and earthquakes), changes in technology and over-all economic demand (such as replacement of coal by petroleum for many uses, and the subsequent replacement of petroleum by nuclear energy) and social and cultural trends (such as the increased popularity of skiing).

Insofar as major urban highways and urban renewal projects are concerned, their impacts upon property values can be arbitrarily divided into *diffused* impacts upon properties in all parts of the metropolitan area, and *locally concentrated* impacts upon properties immediately adjacent to the improvements concerned, or almost that close. The diffused impacts can properly be considered as another of the many dynamic

effects influencing property values which are inherent in a growing and changing economy. Therefore, the government need not compensate the myriad individual property owners who lose from this process, any more than it imposes special taxes upon those who gain. The losers can expect to pay lower property taxes if their property actually declines in value and this is reflected in assessments, just as the gainers can expect to pay higher property taxes for the opposite reason.

But the locally concentrated impacts are far more likely to be both larger in proportion to total property value, and more easily traced to the specific public improvements concerned, as opposed to all other factors. Hence a reasonable case could be made, for example, for compensating property owners along a highway right-of-way for losses in value due to increased noise, ugliness, air pollution, and night glare.

However, if such compensation is paid to locally concentrated losers, then it would be equally just for locally concentrated gainers to pay special taxes to offset their windfall capital gains. The absence of both these devices can be considered indirect evidence that the public affected prefers to risk suffering uncompensated losses in order to have a chance to benefit from unrecaptured gains. This is especially likely since total gains presumably outweigh total losses, or the improvements would not be made. Moreover, the difficulties and costs of computing precisely who gains and who loses from such property-value shifts, and by how much, are another strong argument for ignoring either positive or negative compensatory action, as is discussed below.

A dynamic economy similarly imposes certain psychological costs upon those living in it. Stable relationships are continually being disrupted or affected by the changes inherent in such an economy. A private apartment house developer is not expected to pay for the psychological costs he imposes on previous tenants at a site where he buys some old tenements which he demolishes, replacing them by a new apartment project. Private developers are expected to pay the fair market price for the properties concerned, but not all of the other costs associated with change in any situation. Consequently, it would be unreasonable to expect the government to compensate every person who experiences a psychological loss because of the creation of a new public project, since it is part of the dynamic process of change inherent in social progress.

THE DIFFICULTIES OF MEASURING LOSSES OF CERTAIN TYPES.
Some of the losses which have been described earlier cannot be accurately measured in such a way as to make compensation of the in-

dividual households concerned truly practical. Three specific difficulties connected with measurement are delineated below.

a. *Nonmeasurability.* There are no accurate methods of quantifying certain costs (or benefits), particularly psychological ones associated with the disruption of existing relationships. It is not possible, therefore, for the state accurately to assess the degree of such loss and compensate those concerned. This is particularly true because the only persons capable of assessing the loss—the persons affected—have a natural motive for exaggerating that loss if compensation is offered.

b. *Nonseparability.* Certain kinds of costs (and benefits) can be measured, but they embody composite effects of the public project and other forces at work in the economy. It is often not possible to discover how much of these effects can be accurately attributed to the project, and how much must be attributed to other forces. For example, increases in the value of any given land site can be caused by the impact of a project, by increases in population, by general inflation in the price level and by a host of other factors. Hence, it is extremely difficult even to estimate to what extent the public project is responsible for the increase (or decrease) of land values which occurs in a given period.

c. *Nonaccountability and wide individual variation.* Certain types of costs are measurable and separable but difficult for public authorities to account for accurately, particularly because they are subject to wide individual variation. For example, the amount of time spent looking for alternative quarters can vary tremendously from individual to individual. It would be quite possible for each person to keep track of that time, and for authorities to place a value on each time unit. But excessive individual variations, plus a tendency toward overreporting flowing from the natural interest of each person to maximize his compensation, would make complete compensation for every individual impractical and undesirable.

There are three basic methods of coping with the difficulties of measurement described above. The first is overlooking the costs concerned altogether. This is especially appropriate when the losses involved are probably not large for each individual concerned on the average. Second, standard estimates can be used as proxies for losses which are either nonaccountable or nonmeasurable. Third, public authorities can undertake actions aimed at providing benefits which tend to offset certain costs generated by the highway. For example, if public authorities created one new housing unit accessible to low-income households for every demolished unit occupied by a low-income household, and the new units were similar to the old in size and style

and ownership, then no upward pressure on rents or occupancy levels would be generated by the reduction in the supply of housing available to such households. Rather than attempting to measure the highly diffused losses caused by the highway, the authorities would nullify them by creating offsetting benefits. Such compensatory action is probably the only way to counteract costs which are diffused and probably small in each individual case, but occur over a great many cases.

The Tests Which Losses Must Pass to Be Directly Compensable

Any practical policies of compensation must take into account both the basic principle described in the first part of this report and the modifications set forth above. The result should be a set of practical policies designed to pay people direct compensation whenever the losses they sustain meet certain key tests. These tests can be summarized as follows:

1. *Attributability*: the loss concerned is in fact caused by the public project or the relocation generated by it, rather than by other economic or social forces.
2. *Significance*: the loss is relatively large both absolutely and in relation to the economic capabilities of those persons who suffer it.
3. *Noninherent Riskiness*: the loss cannot be considered an inescapable risk of property ownership, or an inevitable price of progress in a dynamic society.
4. *Identifiability*: the individuals or class of persons who suffer the loss can be personally identified.
5. *Measurability*: the magnitude of the loss can be measured or estimated with reasonable accuracy, at least sufficient to design roughly offsetting beneficial actions.
6. *Deliverability*: compensation made for the loss by public authorities can be accurately directed at those who suffered that loss, whether they are individuals or an entire class of persons, and will not be received by others who did not suffer any such loss.
7. *Net Negative Impact*: the loss is not likely to be offset by benefits resulting from the public improvement and likely to be distributed in the same way as the loss itself.

It is clear that these tests represent value judgments rather than the application of purely scientific, economic or legal principles. Hence they are inescapably arbitrary. Yet, in my opinion, a compensation policy based upon both justice and practical feasibility will include com-

compensation for all losses which pass the above tests. Regarding all losses which do not pass these tests, I believe they are either not deserving of compensation, or else no practical means of providing it can be arrived at. However, my judgments are certainly open to argument and modification.

The Types of Losses Which Pass These Tests, and Therefore Should be Compensable

The table set forth on an accompanying page shows all of the specific types of losses due to highways or urban renewal described earlier in this paper. It indicates which of these losses pass the seven tests mentioned above. The table also shows which tests are failed by those losses which do not pass all seven tests, and whether or not those which do pass are compensable under existing laws and regulations.

It should be emphasized that the judgments expressed in this table are partly subjective in nature. Therefore, they are open to dispute on nonscientific grounds. Moreover, these judgments are not based upon the professional expertise of lawyers, but rather the inferences of economists. So they are certainly subject to further modification. However, they have been set forth here as a tentative start toward a more systematic development of public compensation policies than is embodied in present laws and regulations.

Based upon the findings set forth in this table, six of the twenty-two specific types of losses described earlier in this report are subject to full compensation, and four others to partial compensation. Eight of these ten losses are not now considered compensable under existing laws and regulations. Hence the analysis we have presented has led to conclusions quite divergent from existing compensation practices, as will be further explored below. The ten fully or partly compensable losses can be divided into four basic types.

1. Compensation paid directly to individuals displaced for non-waiting costs, including: (a) Payment of the fair market value of real property taken as of the time of the taking; (b) Payment for some of the losses of investment resulting from specific financing arrangements not accounted for in the computation of fair market value; (c) Payment for the "excess relocation costs" of acquiring or renting alternative property; that is, the costs of such acquisition or renting in excess of fair market value or previous rentals paid; and (d) Payment for the costs of moving.

TABLE 1

The Kinds of Losses Imposed Upon Residential Households	Does It Pass All Seven Tests?	If Not Which Test Does It Fail?	If Yes, Is Compensation Now Payable?
A. Losses imposed upon residential households by displacement itself			
1. Disruption of established relationships	no	measurability	yes
2. Losses due to the taking of real property	yes		no
3. Losses due to home financing arrangements	yes (part)		
4. Costs of seeking alternative housing elsewhere	no	measurability, significance	no
5. Costs of paying for alternative housing elsewhere	yes		yes
6. Moving costs	yes		
7. Higher operating costs at new location	no	attributability	
B. Losses imposed upon residential households by uncertainties and delays			
8. Deterioration in the quality of life	no	noninherent riskiness, measurability, attributability, identifiability	
9. Inability of property owners to sell property at reasonable prices during waiting periods	no	noninherent riskiness, measurability, attributability	
10. Decline in the value of properties during the waiting period because of neighborhood and individual property deterioration	yes		no
11. Loss of income suffered by owners of rental property because of the departure of tenants	no	noninherent riskiness, attributability	
12. Costs of maintaining property after its fair market value has been established for purposes of litigation	yes		no

C. Losses imposed upon residential households not directly displaced by the highway but located in surrounding areas

- | | | | |
|--------------------------------------------------------------------------------------------------------------|------------|------------------------------------------------------------|----|
| 13. Increased city costs to counteract vandalism and other deterioration, which eventually raise local taxes | no | attributability, deliverability | no |
| 14. Disruption of local communications through the blocking of streets | no | measurability, noninherent riskness | no |
| 15. Reduction in the quantity and quality of commercial and other services available in the area | no | measurability, deliverability | no |
| 16. Reduction in employment opportunities, and increased costs of traveling to work | no | measurability, attributability, noninherent riskness | no |
| 17. Spillover of deterioration in the right-of-way during the waiting period | no | attributability, noninherent riskness, measurability | no |
| 18. Increased competition for housing among low-income households | yes | | no |
| 19. Reduction in the efficiency of community facilities through loss of patronage or overloading | yes (part) | | no |
| 20. Losses due to changes in the accessibility of various parts of the metropolitan area | no | attributability, noninherent riskness, net negative impact | no |
| 21. Losses resulting from the process of construction | yes (part) | | no |
| 22. Losses due to increased noise, ugliness, air pollution, and other adverse environmental changes | yes (part) | | no |

2. Compensation to owners of property for costs created by delays in the project, including: (a) Estimated losses of fair market value occurring between the time a site is officially adopted and the time the legal proceedings are made against individual property owners; and (b) Estimated costs of maintenance and repairs made between the time of final appraisal and actual taking procedures.
3. Compensation to the housing market in general to offset the impact upon rents and prices of a reduced inventory of dwellings available to low-income households. This would consist of the provision of additional dwelling units by public authorities (whether built by them or paid for by them and built by private interests) so as to counteract the increasing "tightness" of the low-income household market caused by demolition of housing units formerly available in that market. The number, size and type of units which would be made available by public authorities in comparison to the number demolished would depend on particular housing conditions in the area concerned, including the degree to which racial segregation restricted the accessibility of the existing inventory to members of racial minority groups displaced.
4. Compensation to the neighborhood in general and the property owners in areas lying outside the clearance area, including: (a) Payments for disruptions connected with the construction of the highway itself; (b) Provision of additional public facilities and services to offset facilities demolished in order to create the highway (such as public schools); and (c) Payments to adjacent or nearby owners to offset losses in value due to increased noise, ugliness, air pollution, or other adverse environmental effects.

V. The Seriousness of the Injustice Resulting from Failure to Pay Such Compensation

The fact that governments fail to pay compensation for losses they inflict upon certain residential households does not in itself indicate that present compensation policies should be changed. No social institution perfectly conforms in practice to what it should do theoretically. In many cases, society endures such behavioral imperfections because their consequences are not serious. Those consequences neither con-

stitute a great injustice for any sizable group, nor waste significant amounts of resources that could be more effectively used, nor threaten the rest of society with dire consequences. Correcting such imperfections is often not worth the cost in terms of legislative, administrative and general public attention, even if it might produce some net economic benefits or greater justice.

Therefore, in order to assess the policy implications of government's failure to pay compensation for the losses that I have indicated are properly compensable, it is necessary to estimate roughly the nature and magnitude of that failure's consequences.

The Concentration of These Losses Among Low-Income Minority-Group Households

The losses caused by urban highways and urban renewal for which no compensation is now paid are not spread evenly throughout the nation's population. By their very nature, they are concentrated upon the households which these public programs displace, and other households living close to the clearance areas involved. But these public programs tend to select locations where a high proportion of low-income, minority-group households reside.

This is true for four reasons. Three result from the fact that such households have a high proclivity for living in the oldest and most dilapidated housing in each metropolitan area, particularly within central cities. They do so because such housing is the least expensive available, and they are poor. Also, their choice of alternative locations—particularly in the suburbs—is restricted by ethnic discrimination in housing markets.

Urban highways and urban renewal projects are concentrated in areas where such housing is found because:

1. City planners often use these programs as a means of getting rid of the oldest and least desirable housing in the existing inventory. This is one of the explicit functions of urban renewal, which can only be done in relatively deteriorated areas.
2. The oldest housing is usually found in close proximity to central business districts, since U.S. cities (like most others) developed outward from the center. But major highways also focus on the area peripheral to central business districts because that is the optimal location for certain traffic arteries skirting or serving the downtown area.

3. Property in these areas is less expensive than elsewhere, since it is older and more dilapidated. Therefore, routing highways through such neighborhoods reduces total acquisition costs—especially since so many of the true costs of displacement are not borne by the government but by the households displaced.
4. Members of low-income ethnic minorities have not in the past been organized enough politically to oppose the routing of highways through their neighborhoods, or the location of urban renewal projects there. In contrast, higher-income residents and owners of industrial and commercial property generally have the organizational and financial capability, and the political connections, to offer strenuous opposition to the location of these public improvements in their neighborhoods. This has happened in dozens of cities across the country, from Beverly Hills to Cambridge. To at least some extent, highway and urban renewal officials responsible for selecting routes and sites are naturally motivated to follow the geographic path of least political resistance. Until recently, that path has often run directly through the lowest-income neighborhoods.

As a result of these factors, almost all urban renewal projects, and a great many inner-city segments of federally assisted highway systems, either have been constructed, or are planned for, sites and routes in low-income, minority-group neighborhoods, particularly Negro areas.

As the recent report of the National Advisory Commission on Civil Disorders clearly established, the residents of these neighborhoods include many of the poorest and most deprived citizens in the nation.²⁰ To concentrate the uncompensated losses resulting from urban highways and urban renewal upon them is triply unjust, as well as socially dangerous. It is triply unjust because these households are the least able to pay such costs, derive the least benefits from the projects concerned, and are already unfairly compelled by society to bear heavy burdens resulting from racial discrimination and segregation. It is socially dangerous because the residents of these areas have recently begun to react violently to their conditions of life, and may be stimulated to further violence by the injustices of society's failure to pay proper compensation for the losses described earlier

In most cities, government officials are not likely to ameliorate the loading of these uncompensated losses upon low-income minority

²⁰ See especially Chapters 7 and 8 in the *Report of the National Advisory Commission on Civil Disorders*, Washington, D.C., March 1968.

households by rerouting highways into wealthier areas. The "political heat" from such rerouting would be too great. Nor are they likely to shift urban renewal projects out of low-income neighborhoods, because the legal requirements for eligibility require concentrating them in such neighborhoods. Therefore, this kind of unjust concentration of losses can be avoided only by ceasing to construct such public projects altogether, or providing adequate compensation for the losses involved.

*Rough Estimates of the Magnitude of Certain Key
Uncompensated Losses*

But how large are these uncompensated losses? If they are relatively small, then perhaps they will not stimulate disorder. Nor will they create any more injustice than a thousand of the other essentially irremediable frictions that are inescapable in a large modern society. Thus, at least a rough quantitative analysis is crucial in assessing the policy implications of these losses.

The number of households likely to be displaced by all urban highways and urban renewal projects has been estimated by the Public Works Committee Report. About 96,400 households (including both families and individuals) will be displaced each year from 1964 through 1972. This includes all urban renewal displacement, and 82 per cent of all highway displacement (since 18 per cent of highway displacement in the past few years has been in rural areas).²¹

In past urban renewal displacement, about 27 per cent of all displaced households were individuals, and 73 per cent were families. The median-size displaced family contained 3.0 persons.²² If these figures are applied to future urban displacement for both highways and urban renewal, then about 237,200 persons per year would be displaced by these programs. Moreover, it is reasonable to assume that at least an equal number of persons in surrounding areas are likely to be affected by some of the costs described earlier. Thus, in the eight years from 1964 to 1972, a total of about 3.8 million persons would be unfairly compelled to pay costs associated with displacement resulting from these two programs—including 1.9 million who would be directly displaced. Although this total constitutes less than 2 per cent of the entire U.S. population, it is clearly a significant number.

²¹ Public Works Committee Report, pp. 260-261.

²² William L. Slayton, "The Operations and Achievements of the Urban Renewal Program," in Wilson, *op. cit.*, p. 212, and the Census Bureau Relocation Study, p. 339.

Estimating the magnitude of uncompensated costs imposed upon these persons is much more difficult than estimating the number of persons involved. However, a few rough calculations can be made.

1. About 61,300 renter households will be displaced each year in urban areas by highways and urban renewal.²³ Displacement will compel most of these households to pay higher rents. The Census Bureau Relocation Study estimated that median rents for families (excluding individuals) were raised by relocation from \$65 per month to \$67 among nonwhites, and from \$68 per month to \$83 among whites.²⁴ The federal government has proposed compensating such renter families by granting a lump sum equivalent to a monthly rent subsidy over a two-year period. The monthly subsidy would equal the difference between the family's rent after relocation in standard housing and 20 per cent of its monthly income.²⁵ I am not familiar with the logical justification for this particular compensation formula. Perhaps a better one could be conceived. But for purposes of initial estimation, I have used it. Employing the median incomes of relocated families for 1964 reported in the Census Bureau Relocation Study, and assuming that 53 per cent of all relocated families would be nonwhite, I calculated a weighted average total compensation of \$221 for each renter family displaced. I further assumed that individuals should receive the same compensation as families. (Even though individuals pay lower rents, they also have lower incomes.) Under these assumptions, the annual cost of compensating all displaced renter households for being compelled to pay higher rents would be \$13.5 million.
2. About 35,100 owner-occupant households will be displaced each year in urban areas by highways and urban renewal.²⁶ In order to buy housing of quality comparable to that from which they were displaced (or somewhat superior), these households will have to pay a premium over the fair market values of their original homes. The Public Works Committee Report indicates the fair market values of a sample of 26,900 homes purchased by various government authorities in clearance operations were as follows: ²⁷

²³ Public Works Committee Report, pp. 260-261.

²⁴ Census Bureau Relocation Study, p. 345.

²⁵ Public Works Committee Report, pp. 141-142.

²⁶ *Ibid.*, pp. 260-261.

²⁷ *Ibid.*, p. 22.

Under \$6,000	29.0%
\$6,000—15,000	51.5%
Over \$15,000	19.5%

I assumed that the average value of all homes under \$6,000 was \$4,000; the average value of those from \$6,000 to \$15,000 was \$10,500; and the average value of those over \$15,000 was \$20,000. These assumptions yielded a weighted average fair market value of about \$10,500. The relocation study in Baltimore cited earlier indicated that the average premium paid by home owners with relatively low-valued homes was about 53 per cent.²⁸ But the premium for higher-value homes is likely to be a lower percentage. Therefore, I arbitrarily calculated the average premium for all future home-owner relocations at both 30 per cent and 50 per cent. The total compensation required to offset such premiums per year would thus be \$110.6 million at 30 per cent, or \$184.3 million at 50 per cent.

3. The destruction of 96,400 housing units per year in urban areas by highways and urban renewal will reduce the supply of housing available there, especially for low-income households. This will tend to drive up the cost of housing (either owned or rented) for thousands of households who are not displaced, as well as for those who are displaced. Owners will gain from this effect, since the values of their properties will rise. But renters will suffer, since they will have to pay more. However, it is impossible to measure accurately the increase in rents which each individual nondisplaced household will have to pay because of this supply-reduction effect. Therefore, I believe the only practical way to compensate them is to offset the drop in supply caused by displacement by building new housing available to low-income households. In "tight" housing markets, such an offset might require building one new unit for every one demolished. In "loose" housing markets, very little new construction might be required. It is extremely difficult to estimate accurately the requirements for such an offset for the nation as a whole. A crude estimate is that one new unit should be constructed for every two units demolished. If the average unit so constructed cost \$15,000, then the total capital cost of building 48,200 units would be \$723.0 million per year.

However, it would be possible to provide incentives for private

²⁸ See footnote 4.

investors to put up all of this capital. The government would have to furnish subsidies that would virtually guarantee a successful market for such housing at a reasonable rate of return. Use of a below market interest rate subsidy would not enable the very lowest-income households to afford such housing. But it would make it available to most displaced households. I have assumed the government would underwrite 6 per cent interest by borrowing money with 6.0 per cent bonds and lending it at zero per cent interest. If 40-year financing is used, this form of subsidy would involve a cash outlay of \$623 per unit per year. Therefore, creation of 48,200 units per year would require an annual subsidy of \$30.0 million.

It is not certain, and may even be unlikely, that the cost of thus preventing nondisplaced renters from suffering injuries from a reduction in housing supply would equal the size of the injuries they would sustain if no prevention occurred. Yet there is no simple way to estimate the size of these injuries; so I will arbitrarily assume they equal the cost of preventing them.

4. The Public Works Committee Report estimates that about 20,520 households per year to be displaced by highways will not be covered by programs providing compensation for moving costs.²⁹ (All households displaced by urban renewal will be covered by such programs.) The average payment for moving expenses made to those households displaced by highways who actually received such payments was about \$119.³⁰ If this same average payment is extended to an additional 20,520 households per year, the annual cost will be \$2.4 million.

The above calculations do not cover all of the uncompensated costs likely to be imposed upon residential households in urban areas by highways and urban renewal. However, I believe they encompass the largest of those uncompensated costs. The total amount required to provide compensation for those discussed above would range from \$156.5 to \$230.2 million per year, depending upon the size of the premium which displaced owners would have to pay to obtain comparable housing elsewhere.

Thus, present practices in urban areas regarding residential households displaced by highways and urban renewal projects will unfairly impose uncompensated costs of at least \$156.5 to \$230.2 million per

²⁹ Public Works Committee Report, p. 26.

³⁰ *Ibid.*, p. 37.

year upon approximately 237,200 displaced persons and at least another 237,200 nondisplaced persons. In my opinion, this represents injustice on a massive scale. It amounts to an uncompensated loss averaging from \$812 to \$1,194 per household for each of the estimated 192,800 households involved. The median income of these households is probably around \$4,000 per year.³¹ Therefore, the average uncompensated loss which each is compelled to suffer amounts to confiscation of from 20 to 30 per cent of one year's income. Admittedly, the calculations upon which these conclusions have been based are extremely crude. Yet I believe they are more likely to be too low than too high. How much proportionally would paying proper compensation for these costs add to the present nonconstruction costs of urban highways and urban renewal? Expected compensation for all real property—residential and nonresidential—to be acquired in urban areas under these two programs is estimated at \$1.084 billion per year from 1964 to 1972 by the Public Works Committee Report.³² This does not include moving and other relocation costs. But those costs are undoubtedly smaller than the costs of acquiring nonresidential property. So this figure is a high estimate of all costs which will be paid to displaced residential households under current compensation practices. Adding the estimated costs of paying compensation for the specific losses quantified above would increase this total by from 14 to 21 per cent per year.

VI. Conclusion

It is clear that present compensation practices related to residential households displaced by highways and urban renewal are grossly unfair. Those practices in effect shift a substantial part of the true costs of acquiring property for these improvements onto the residential households they displace and others nearby. These households are forced to bear from 14 to 21 per cent of the real costs of acquiring urban residential land for such improvements. This injustice results in forcing relatively low-income families and individuals to bear heavy financial burdens which really ought to be paid by society as a whole or by the specific beneficiaries from the improvements concerned.

Public policies which clearly cause massive injustice should be

³¹ Census Bureau Relocation Study, p. 338.

³² Public Works Committee Report, pp. 252-253.

changed as soon as possible. Therefore, I believe the authorities responsible for urban highways and urban renewal projects should immediately begin detailed exploration of practical methods for correcting these undesirable results of their past and present behavior. These methods should include finding means of calculating the magnitude of each presently uncompensated loss suffered by each household concerned, and means of either paying proper compensation for such losses, or taking actions which will offset their effects.

Some suggestions for achieving these objectives have been made in various parts of this paper. Yet the real purpose of this paper has been to indicate the nature of the problem, and to prove that it is large enough to demand immediate remedial action. If it has succeeded in this purpose, then the complex and difficult work of devising such action should soon begin.

COMMENT

by BURTON A. WEISBROD, *University of Wisconsin*

Within the last decade or so, economists concerned with government investment expenditures have focused increasing attention on the distributive effects, as well as the allocative efficiency, of projects. Anthony Downs has made a useful contribution to this continued development. We cannot concern ourselves with efficiency alone if we expect to address real-world problems and decisions. Equity considerations are also relevant to government decision making.

It is in this context that I see Downs' paper; indeed, in his opening paragraph we read that "widespread injustice" results from the failure of public policy to take nonconstruction costs of urban highways and urban renewal into account, and from the failure to compensate those who bear such costs—particularly when the costs fall upon low-income, disadvantaged persons. "Injustice" is the name of the Downs' story, and "compensation" is its hero.

Now the plot. Downs sets forth twenty-two kinds of losses imposed upon residential households that are affected either directly or indirectly by the construction activities or the accompanying displacement and relocation. He does not consider the losses imposed on non-residential units—business firms—and this strikes me as a notable omission. I suppose, however, that Downs is less concerned about effects on business on the grounds that they are less needy of assistance. I am not so certain, especially when small retail establishments are concerned.

My opening remark suggested that I am more than sympathetic to the increased emphasis on distributional equity in the evaluation of public expenditure programs. Economists' now-traditional emphasis on efficiency—Pareto optimality—and disregard of equity on the grounds of the controversiality of value judgments cannot endure if we are to address ourselves to the real world. But neither should we go too far in the opposite direction, disregarding efficiency. It is in connection with the relationship between equity and efficiency that Downs' paper is not sufficiently clear, and, in some respects, is misleading.

Throughout this truly instructive paper Downs repeatedly emphasizes his concern about justice and equity—which, he states, require

the compensation of losers for a number of forms of losses resulting from urban renewal and highway construction. Although his concern in this paper is with equity alone, he implies that the interests of equity and efficiency do not conflict.

My concern is this: in providing his catalog of losses associated with these urban construction projects, Downs has tended to take a particular and partial point of view—primarily that of the low-income households affected. A general-equilibrium analysis would disclose, however, that while some of the losses are real social costs, others are income transfers. From the standpoint of the individual being hurt, this distinction is irrelevant. But not so from the standpoint of a government decision maker who is concerned with allocative efficiency as well as equity. The point, which I shall illustrate below, is that we may wish—on equity grounds—to compensate persons who are adversely affected by income-redistributional side effects of public actions, but we should recognize that redistributions are not real-resource costs and, thus, the amount of redistributions should *not* normally be counted among the project costs when the project's efficiency is being considered. If compensation for socially unwanted redistributions is to be made—and Downs argues that such redistributions can frequently be made—then a highway or renewal project should be evaluated solely in terms of its allocative efficiency (inclusive of costs of administering the compensation). Even if compensation payments are not made, it would be an error to include the "losses" from redistributional side effects among program costs without also considering the redistributional "benefits" to those who gain.¹

¹ In the revision of his paper, subsequent to the conference, Downs recognizes the difference between allocative efficiency and distributional equity, and he acknowledges the relevance of the distinction for policy purposes. He now states explicitly that his concern in this paper is exclusively with "equity and justice,"—not with allocative efficiency—and this clarification is helpful.

The point that Downs does not make quite clear, however, is that there are two senses in which distributional equity consequences should be considered: (1) *After* a decision has been made to undertake a project; in this situation a strong case can be made (on equity grounds) for compensating the losers, especially when the losers are, to begin with, largely among the disadvantaged. But (2) *before* a decision has been made as to whether a project will be undertaken, the nature of the redistributions it would cause should be understood so that a decision can be made either to compensate the losers or to regard the absence of compensation as a disadvantage (cost) of undertaking the project. In the latter case the problem remains of devising a metric for making these distributional effects commensurable with real resource costs, in order that the over-all "grand efficiency" of the project can be assessed. [For further discussion see my "Income-Redistribution Effects and Benefit-Cost Analysis," in S. B. Chase, Jr. (ed.), *Problems in Public Expenditure Analysis*, Washington, D.C., 1968, pp. 177-209.]

There are a number of illustrations of Downs' failure to distinguish real losses from redistributions. Four of them pass all of his seven tests for determining whether compensation should be paid. These are numbered 3, 5, 18, and 19 (see Downs' Table 1). Each of these—to be analyzed shortly—is indeed a source of loss to certain individuals; but the losses to these people constitute only one side of the income-redistribution effects. Perhaps the bearers of these losses should be compensated; this is a value judgment issue, of course, though, for what it is worth, I share Downs' concern about adverse side effects upon low-income persons and especially upon low-income Negroes. Regardless of whether compensation is paid, however, the "losses" (or amount of the compensation) should not be added to real resource costs to determine total project costs. (To be sure, they should be added to determine total project *expenditures*.) For if this addition were carried out, and if decisions on whether or not to undertake a particular project were based on a comparison of such "total" expenditures with expected benefits, some investments which were actually socially efficient would fail to be undertaken. I have argued elsewhere that if compensation cannot be made, then the net welfare loss resulting from the undesired income redistribution should be taken into account by government decision makers.² But this net welfare loss is overstated by the dollar amount of the gross income transfer, as long as the benefits to beneficiaries count at all.

Since some of the losses discussed by Downs are real external diseconomies of urban renewal and highway projects, while others are income redistributions, further analysis of the various losses is required. I shall examine four.

"Losses Due to Home Financing Arrangements" (Downs' Loss #3). The loss identified here is the consequence of a high-risk home buyer paying a risk premium for a house (what Downs refers to as "contract method of financing"). When public authorities pay the "fair market value" for a home, Downs tells us, they often pay less than the contract purchase obligation, since the latter reflects the risk premium; hence, a loss is imposed on the purchaser.

This "loss," however, does not reflect a resource cost; it is, in effect, a lump sum tax or transfer of wealth *away* from the house occupant and *to* the seller of the contract, assuming that the occupant must eventually pay the seller the difference. Or it is a transfer in the opposite direction if the seller is unable to collect the difference. Regardless of our value judgments regarding the equity of either type

² *Ibid.*, pp. 178-184.

of transfer, the amount of the transfer is not properly additive to the resource costs for the purpose of assessing the economic efficiency of the project.

"Costs of Paying for Alternative Locations" (Loss #5). This loss to displaced persons results insofar as "the fair market value of low-cost homes condemned for highway projects is . . . lower than the current cost of similar dwellings elsewhere. . . ." As I understand the point, such a difference results when there occurs a nonmarginal decrease in the housing stock of "low-cost" housing. For then the price of remaining housing can be expected to rise. Thus, if displaced home owners were paid a "fair market value" based on housing prices prior to the destruction of part of the supply, the owners would be paid less than the cost of replacement. This change in housing prices, it seems to me, is also the source of Loss #18, "Increased Competition for Housing Among Low-Income Households," for the increase in prices of low-cost housing presumably is felt by all low-income persons, not only by those being displaced.

There is no doubt that whenever urban renewal and highway construction do destroy nonmarginal portions of the low-cost housing stock, prices of the remaining stock can be expected to rise. If "fair market value" disregards this, then all occupants of low-cost housing, and all persons displaced from it, suffer a loss. Moreover, although Downs does not say so, the losses are not restricted to the low-cost housing segment; the initial increase in housing prices at the low-cost end of the spectrum will filter upward in response to the altered relative prices among housing of various quality.

These losses to low-income persons renting housing or to low-income home owners displaced by the renewal or highway project are "pecuniary" losses—transfer payments; they have their precise counterparts in pecuniary gains to owners of the remaining housing stock. We may deplore such a redistribution of income or wealth, but it should be recognized as a redistribution. We may wish to compensate the losers (and, perhaps, tax the gainers), but the allocative efficiency of the project is not affected by a decision to pay compensation. The amount of the compensation should not be added to the resource costs of construction and land acquisition for the purpose of assessing the benefit-cost relationship, although the administrative cost of making the compensation payments and collecting the taxes is relevant.

It seems clear that Downs sees the change in prices of low-cost housing as the principal concern, for nearly half of his discussion of the 22 forms of losses is devoted to this point (Losses #5 and

#18). Thus, it is quite important that the transfer payment nature of these "losses" be recognized.

A brief comment is also in order regarding Loss #19, the "Reduction in the Efficiency of Community Facilities Through Loss of Patronage or Overloading." There are really two points here—one involving the loss of patronage, the other involving overloading.

Downs illustrates the "loss of patronage" point by reference to the adverse effects on "schools, churches, stores, and other facilities near the clearance areas [that] may be forced . . . to operate at an inefficiently low scale." These losses, however, are not real costs; they represent sunk costs, which, as such, ought to be irrelevant to current investment decisions, though not to the compensation issue.

Downs illustrates "overloading" costs by the crowding in schools that may result as displaced people relocate. Such crowding or congestion—to the extent that it occurs—is a *real* external cost of urban renewal and highway construction. These costs should be counted when the efficiency of the particular project is being considered.

The real external costs of urban construction programs presumably are disregarded by public decision makers—and it is clear that such disregard is inconsistent with efficient decision making. At the same time, external real effects of urban construction are not limited to public programs. Private construction programs have similar effects, which are ignored no less by private decision makers than by government officials. When an old building is torn down to make way for a new private office or apartment building, these displaced residents also incur losses because of disruption of personal relationships (Downs' Loss #1), the need to search for substitute housing (Loss #4), moving costs (Loss #6), and many of the other forms of loss identified by Downs. Income-redistributive side effects also result from private programs, just as from their public counterparts.³ As a result, caution is required lest constraints be placed unwittingly on public decision makers that would bias the allocation of resources away from the public sector and toward the private. In a world of second best, allocative neutrality between public and private sectors can be an elusive goal.

Finally, I would like to comment on some of Downs' empirical

³ Because eminent domain proceedings cannot be used for private projects, we can assume that adverse effects on *owners* of property required for private projects will be reflected in sale prices. Nevertheless, third-party effects—of which Downs discusses quite a few—presumably are not taken into account by private decision makers any more than by government planners.

estimates and accompanying suggestions for methods of making compensation payments. He points out, helpfully, that even when compensation seems desirable, we should also investigate the cost of deciding which specific persons should be compensated, and in what amounts. In the end, the benefits of compensation—whether in terms of efficiency or justice—might be smaller than the costs.

When we come to the matter of how much compensation to pay, I cannot agree with Downs that the increased housing expenditures made by displaced persons after relocation are an adequate measure of their welfare loss and, hence, of the compensation required to offset the loss. One reason—though not the most important—is that the government's purchase of owner-occupied residences eliminates the home owner's costs of search for a buyer. I assume that at any point in time there are some home owners who would prefer larger, more expensive housing but who fail to act because of the burdens of finding a suitable buyer for their present home and searching for a new home. When such home owners sell to the government they may be expected to seek more costly housing. This represents no welfare loss at all—quite the contrary.

But there is a more serious objection to measuring the welfare loss by the increased expenditures for housing. Downs argues that urban construction activities destroy low-income housing, thereby causing its price to rise. This is another way of saying that a shift in relative prices occurs—with housing becoming more expensive. A rational consumer would adjust to the new relative prices, possibly by increasing or decreasing the amount he spends on housing. In either event he would suffer a welfare loss. The point, then, is that the welfare loss—which presumably serves as the justification for compensation payments—may be badly estimated by changes in expenditure levels.

As noted already, Downs is also concerned about the effects of a reduced low-cost housing supply on nondisplaced households, who can expect to pay increased rents. Finding it “impossible to measure accurately” the size of increases, Downs proposes that compensation take the form of a government financial stimulus to construct low-cost housing to replace the housing destroyed. I am not persuaded. It would seem better to determine the cost of implementing this proposal, and then to use this sum to make cash payments to low-income households—thus providing them with the choice of whether to use the money for housing or for something else.

Notwithstanding my lack of agreement with some of Downs' efforts at estimating the size and form of compensation payments, I whole-

heartedly applaud his effort. There is a need for much more research effort to develop generalizations about which groups of people are hurt by public expenditure programs, which are benefitted, and in what amounts. Downs has made a fine start with respect to urban renewal and highway projects.

Identifying the losers from public projects would not only facilitate realization of equity objectives, but could also contribute to more efficient decisions. The failure to compensate losers can produce a vocal opposition group; in a one-man, one-vote political context this can spell long delay, if not defeat, even for highly efficient projects. For this reason the interests of equity and efficiency will sometimes be served simultaneously. Nevertheless it is important that those compensation payments that offset redistributive side effects of public programs not be viewed in the same way as those that reflect real external costs—even though their impact on the government budget is indistinguishable.

