BY MICHAEL A. COHEN

STOCK AND FLOW

Making Better Use of Metropolitan Resources

One of the most striking features of politics and management in cities around the world is the belief that "the next new project" will solve the most pressing problems of the day. The political compulsion to cut red ribbons, coupled with the professional excitement of building new things with the latest technology, has generated many new investments that are almost always costly and frequently use scarce public resources ineffectively. All too often these public investments involve inflated expectations of benefits, underestimated costs, actual cost overruns, and unanticipated negative externalities—such as adverse environmental and social consequences. These widespread traits together should arouse considerable public skepticism about the efficacy of those public officials and their technical advisers who enthusiastically promote

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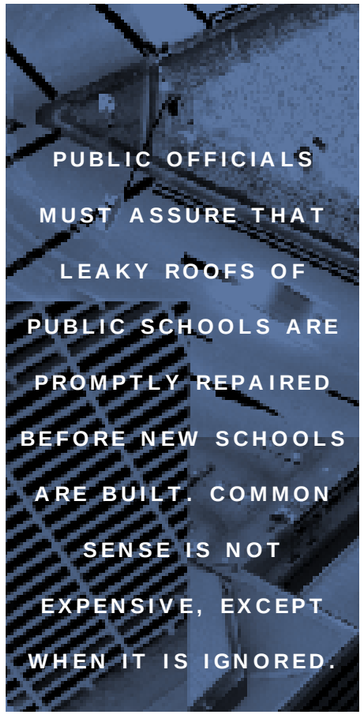
new projects. Such skepticism has implications for metropolitan-level affairs as well as city-level affairs. The main implication at both levels is that proper operation and maintenance of facilities that already exist is far more important than building new projects.

In the early 1990s, the World Bank roughly estimated the value of existing infrastructure stock in the cities of developing countries—including water, sanitation, roads, bridges, public lighting, and traffic signals—to be on the order of U.S.$3 trillion. Its rough estimate of annual investment in these sectors was about U.S.$150 billion. Both are very large numbers. But the important point is that annual investment (the flow) was only about 5 percent of existing investments (the stock). Even if these numbers are incorrect by an order of magnitude, their general proportions are reasonable.

Judging by the time and attention given the preparation and appraisal of new investments, including cutting their red ribbons, "the new" is clearly much more attractive politically and emotionally than "the old." Yet from a public policy perspective, sound management of the physical well-being of the city must focus primarily on obtaining as many benefits from the existing stock as possible. The numbers are overwhelmingly convincing: a 5 percent increase in the benefits coming from the stock of U.S.$3 trillion is equal to U.S.$150 billion, the size of the whole annual flow. Getting those benefits from the stock, however, need not involve more financing and indebtedness, more environmental impacts, or more social disruption. In layman's terms, cities should be getting more out of what they already have before they make new investments (or cut new ribbons!)

This argument is not intended to discourage needed new investments to complement and support the existing stock—such as rehabilitating an old water treatment plant or fixing potholes in city streets. But before a city invests in a new subway to move its traffic faster, it probably should identify better ways to manage existing traffic flows. A



World Bank–financed traffic study in metropolitan Manila in the Philippines in the 1980s found that traffic speeds could be increased by 30 percent, traffic volumes would grow by 40 percent, and accidents would drop 40 percent as a result of improved traffic management. While individual results will certainly vary from city to city, the general principle is that improved management of the existing stock deserves to be tested in every case before the public is asked to finance new infrastructure.

This argument about stock and flow should also be put into a broader economic and social framework at the metropolitan level. Public investments almost always eventually require both increasing taxes and finding finance in capital markets. But the administrative and political costs of raising taxes are frequently underestimated. Moreover, using private capital for a public investment inevitably increases the financial costs of all subsequent borrowings in the market, both public and private. Large investments that take a long time to build and whose local economic benefits will accrue only in the medium to long term further depress short-run local economic productivity. Building a subway, for example, which results in digging up streets and slowing traffic for years, needs to be viewed in terms of its net impact—time lost by commuters during construction as well as expected time gained by future subway users.

Finally, this argument also has a special metropolitan twist. The rationale for metropolitan policies and institutions rests fundamentally on a broad perspective concerning externalities. That perspective assumes the many positive and negative externalities of urban investments and action can be better managed if all of the potential areas and populations likely to feel their impact are included in the planning and decision process. Benefits can be increased if people work together, and negative impacts can be perceived and controlled if their distribution is also fully understood. Postponing or minimizing negative metropolitan and citywide impacts can be one of the big benefits of better management of the existing

stock.

Understanding, and valuing, the stock in a city can also be extended to metropolitan social and cultural institutions. If we substitute the word "heritage" for stock—that which exists already—we are also able to think about the inherited "value" from the past. If we further substitute the word "capital" for stock we enter the world of "social capital" or problem-solving capacity. Cities and communities need to make better use of their social and cultural heritage as instruments to build capacity to solve problems. One example might be using the Chinese community in New York to reduce crime or improve environmental sanitation in the areas around Chinatown. Another actual case is that encouraging schools in Naples, Italy, to adopt historical monuments has motivated children there to improve the care and maintenance of these public sites.

We understand that if we do not fix the roofs on our homes, the rain will eventually damage our possessions. We are likely to enjoy those possessions longer with a repaired roof. While it is certainly more appealing to buy more possessions before fixing the roof, at some point we decide that we can no longer postpone such repairs. We should hold our public officials to an even higher standard. Their job, as guardians of the public stock, is to assure that leaky roofs, for example of public schools, are promptly repaired before new schools are built. Common sense is not expensive, except when it is ignored. ■