

THE BAY AREA ECONOMY IN 1990—A LOOK AHEAD

REMARKS BY

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In citing the need for today's symposium your Chairman noted that the Bay Area, long claimed as one of the uniquely beautiful areas of the country, now is hard pressed to justify that reputation.

Specifically, he noted that all the marks of civilization—congestion, dirty air and water, scarce and expensive housing, great energy demands and continuing population growth—are obscuring the landscape. In fact, these phenomena even now are generating what many observers believe is a crisis in the quality of Bay Area life. The question is: where do we go from here?

Today, I would like to share with you some observations regarding the factors which appear to me as likely to influence the future growth of the Bay Area and the policy choices which need to be made. Our future is not foreordained. We do have some control over it, and the manner

in which we act—or fail to act—will determine whether we resolve the complex problems bearing upon growth and the environment.

Dimensions of Growth

“Growth” of course, generally has been the name of the game since the first wave of ‘49ers, many of them coming around the Horn, flocked to the new El Dorado. (Incidentally, Alastair Cooke tells us that this was the route favored by politicians, gamblers and prostitutes, which I mention because I want you to know that when I recently came, it was by plane.) Since the 1880’s population growth has centered in Southern California, but the **rates** of increase in both population and jobs in the Bay Area generally have outpaced those nationally by fairly substantial margins.

The reasons for the Bay Area’s secular growth are well understood, but deserve brief mention. They include a succession of powerful external factors such as World War II, the Korean and the Vietnam conflicts, and even the Great Dust Bowl migration, which in the late ‘30’s found hundreds of thousands heading West to the Promised Land. The growth associated with the three Pacific conflicts contributed to a relatively high dependence upon the Federal sector, but this dependence was superimposed upon a highly diversified economic base.

Our economic base is characterized by three major factors: a relatively low dependence upon manufacturing, a high degree of diversification and a unique specialization within manufacturing itself (including a heavy orientation towards electronics and R&D activity), and a traditional and growing orientation towards finance and international trade.

It is these activities—not heavy industry—that have attracted and supported a well-educated, highly skilled and, generally speaking, an environmentally-oriented work force. To the members of this work force, the amenities in all their dimensions—physical, educational, etc.—are very important.

And it is a well-paid work-force. Last year, per capita personal income in the 9-county Bay Area apparently rose by about 7.5 percent to somewhat over \$6,000—12 percent above the average for the state and 22 percent above the national average. Even after allowance for inflation, this represents a doubling of per capita income since 1940 and an increase of 36 percent just since 1960. Truly, this is an impressive performance, one which has made possible a commensurate rise in the standard of living and which seems to provide an ongoing validation of Horace Greeley's dictum.

Crisis in the Quality of Life

Yet, despite more people, more jobs and higher incomes, economic "growth" per se has not solved some of our most pressing problems. And in some cases it clearly has exacerbated them. For example, a 55 percent increase in the number of auto registrations in the Bay Area in the last dozen years has been accompanied by a 75 percent increase in both gasoline consumption and the number of autos crossing the Bay's bridges. And the auto, of course, is the major contributor to congestion and smog.

In many of its economic as well as its physical aspects, the deterioration of the Bay Area environment is evident. It is evident, for example, in the virtual destruction of the bay shrimp industry by water

pollution; in the steady decline in the crab and fishing catch, to less than 20 percent of their decade-ago volumes; and in the loss to urbanization, in just two decades, of two-thirds of one of the world's prime agricultural areas (the Santa Clara Valley). This loss is attributable in no small degree to the pressure of population and rising taxes on farm lands. Nor has the steady encroachment upon farm lands and open-space to accommodate people obviated against a rapid rise in land and home prices. In fact, the cost of shelter has more than doubled in the Bay Area in the last 20 years, compared with an 83 percent increase nationally. Even more disturbing, to homeowners and renters alike, has been the steady rise in taxes, which in many cases appear to have failed to stem a deterioration in the social infrastructure.

Economic Opposition to Growth

And spending by the public sector in support of the social overhead has soared. Since 1960, per capita expenditures by the 9 Bay Area counties (including their cities, schools and special districts) and per capita property taxes have almost tripled, to a level well above the state average. (And here I would note that even the great potential of BART has been clouded by the announcement that its survival may depend upon a substantial Federal bailout.) But the impact of rising taxes upon the Bay Area's elderly, who live on essentially fixed incomes, and upon the poor who own their homes, frequently has been devastating. Nor have efforts to "relieve" the rising burden of local taxes by increased spending at the state level been an unqualified success. Just since 1960, the state budget itself has quadrupled—and on a per capita basis, has tripled. And even though upwards of 60 percent of expenditures are in support of local assistance,

ultimately these are financed out of someone's pocket at the local level. If local taxes have been reduced in some cases, this is only because they have been shifted to the state or the Federal governments. In the last analysis, there is no such thing as a "free" lunch.

Thus, opposition to growth—at least to some facets of growth—is not just environmental and ecological in its dimensions. To a very considerable extent it reflects, I believe, a disillusion with the traditional booster syndrome that "economic-growth-will-broaden-the-tax-base" (which it has) "and-make-possible-a-reduction-in-taxes" (which it hasn't).

The stresses and strains produced by growth thus have made the Bay Area a focal point of anti- and controlled-growth sentiment. This phenomenon is by no means new—sixty years ago California conservationists took to heart Teddy Roosevelt's admonition to preserve "a very wonderful and beautiful country." But the sentiment is now much more widespread.

Recently, concern over growth and the environment has found expression in a number of organizations designed to cope with one or another aspect of the problem—agencies such as the Coastal Commission, The Bay Area Air-Pollution Control District, the Metropolitan Transportation Commission, and the Association of Bay Area Governments. The latter, as you know, has developed a blueprint for a **Regional Growth Policy**, the thrust of which parallels, in a number of respects, **The California Tomorrow Plan** of 1971. ("California Tomorrow" is a non-profit organization dedicated to increasing public awareness of the problems of

maintaining a beautiful and productive state.) While the outcome of the growing debate over growth and the environment is not certain, especially given the complications introduced by the energy crisis, the success or failure of these or similar plans will have an important influence on the future nature and dimensions of the Bay Area's development. It is to these efforts that I therefore would like to turn my attention.

Regional Growth Plans

In assessing proposals for coordinating and rationalizing growth, such as those advanced by ABAG and "California Tomorrow," I would first note what appears to me to be the general reasonableness of their overall thrust. For example, I would concur with ABAG's **basic tenet** that the Bay Area, if its quality of life is to be retained, cannot sustain the amounts and types of growth of the past. I would agree with its **basic assumption** that a region does, in fact, have the right to opt for a policy other than "anything goes," and consequently to set guidelines conditioning its growth rates. And I would support its **basic goal** of "limiting population growth and concentrating on improving existing communities and the standard of living of present Bay Area residents" rather than simply striving for "a larger society."

Specific proposals for achieving a slower and more balanced growth are, to be sure, a matter of controversy. But with some notable exceptions they too, generally appear reasonable in terms of achieving their objectives. The various recommendations include tighter land use controls on residences and industries, plus manpower programs to provide jobs for the locally unemployed rather than jobs for

new workers from outside the region. They also include tax incentives to single people and small families, tax penalties on economic developments that generate relatively heavy population increases, and reform of the tax structure to reduce dependence upon the growth-oriented property tax. And they also recognize the impelling need for mass transit systems to reduce dependence upon the private automobile.

At the same time, some proposals may contain built-in conflicts. For example, **The California Tomorrow Plan**, which may well qualify as the most thorough and comprehensive effort yet designed to "put the pieces together," recommends "massive state and regional building programs that create many jobs." But, construction per se ranks relatively high among the activities which can exert a negative environmental impact. Similarly, the plan's "guaranteed income" proposal appears to be a throwback to the "Ham and Eggs" and "EPIC" ("End Poverty in California") movements of the '30's, which I understand were rejected by California voters precisely out of fear that their adoption would induce yet greater waves of immigrants and a drain on the state's finances.

How Realistic are Projections?

As a planning target, ABAG last year embraced what it considers to be "a moderate" population growth for the Bay Area, from 4.6 million people (and 1.7 million jobs) in 1970, to about 7.5 million people (and 3.1 million jobs) at the turn of the century. The projections, which represent the mid-point of a "probable" population range of between 6.2 million and 8.8 million in the year 2000, are based in part upon population estimates made by the

State Department of Finance in 1971. Last month, however, the state released revised (and substantially lower) projections, including a 30-percent reduction in expected growth for the Bay Area by the year 2,000. This would mean an increase of under 2 million people (to 6.6 million) compared with the earlier estimate of about a 3 million increase.

Nevertheless, it seems to me that even this projected increase may turn out to be on the high side. The state's new projections now assume a lower level of immigration into the state (100,000 per annum, far below that of the early '60's)—but they still assume a high fertility rate of 2.45 per woman. This is on the grounds that the low fertility rates of the last few years—including an apparent drop last year to the 2.1 rate which would mean “zero” population growth by the year 2040—are attributable to “temporary conditions, including economic uncertainties and sudden relaxed abortion restrictions.” This assessment may be correct. However, my own view is that a fundamental shift in attitudes favoring smaller rather than larger families is taking place, and is not likely to prove transitory.

I believe this shift is based upon a growing conviction that more is not necessarily better, and that smaller families and fewer people are more likely to be consistent with the objectives of achieving **both** a rise in per capita income and environmental balance. In any event, the lower population projections do not obviate the underlying rationale and need for formulating coordinated policies and growth objectives. The projected increases are still considerable, and will require more vigorous, not relaxed, efforts to harmonize growth and environmental objectives

if the quality of life in the Bay Area is to be preserved. But what then will determine the success of efforts to harmonize these objectives and solve our problems?

Metropolitan Approach

First and foremost, efforts directed at solving the Bay Area's problems will require that solutions not be diluted by a multiplicity of local government organizations and special-purpose agencies working at cross purposes. Rather, it will require a comprehensive metropolitan approach which carefully assesses the trade-offs between growth and the amenities of life in the Bay Area.

The success of such an approach will itself depend upon the surrender of varying degrees of local authority and a harmonizing of divergent local interests. Such changes do not come easily, but as ABAG has noted, movement in this direction is evident in several developments: communities are responding to the demands of their electorates for a re-ordering of priorities; individual communities with limited resources have not been able to solve their problems; and the prerogatives of local autonomies already are being eroded by the establishment of independent regional agencies designed to cope with area-wide problems.

In this connection, my own experience in Pittsburgh convinces me that the business community can exercise real leadership in helping to solve the Bay Area's problems. As you know, Pittsburgh in the mid-'40's was a disaster center, environmentally speaking. The choking pall of fumes which required 24-hour a day lighting of the city's streets almost reached near calamity proportions. But under the leadership of the business community, and with ex-

cellent cooperation from local government and organized labor, the Allegheny Conference on Community Development sparked Pittsburgh's environmental and economic renaissance. Not only did the air become fit to breathe, but in the process, the city's economic base shifted from excessive dependence upon heavy industry to more emphasis upon such sectors as industrial research and corporate headquarters. I would hope that, unlike the Pittsburgh experience, we will not wait to take corrective measures in the Bay Area until our health and livelihood are seriously threatened.

Actions at the State Level

While concerted action at the local and regional levels will be critical, the success of coordinated Bay Area planning and growth policies also will depend, and perhaps in no small degree, upon actions at the State level, both in California and elsewhere. Such actions presumably might include the adoption of a statewide zoning and land use plan, the creation of an agency (such as New York's Urban Development Commission) to plan and control New Towns, and so on. The New York Urban Development Commission, incidentally, is counting on New Towns to accommodate one-half of the Empire State's population growth by the end of the century, and the success or failure of these efforts may have significant implications for what even now is a major source of in-migration into the Bay Area.

Actions at the Federal Level

Similarly, the success or failure of efforts to solve the Bay Area's problems also will be strongly influenced by a host of policies and actions (or non-actions) at the national level. These might include the adoption of a national land use policy, the

adoption of a national energy policy, and the resolution of many conflicting policies such as presently involve housing and energy. This effect will require not only the placing of a clearer price-tag on environmental and growth activities, but also the elimination of a host of conflicting special incentives, quotas, subsidies and pricing arrangements by various government agencies which encourage the uneconomical use of energy and other real resources.

Impact of the Energy Problem

The question naturally arises as to what impact the energy crisis is likely to have on the Bay Area. My own view is that the energy problem is real, that it is not short-term, and that its potential impact may turn out to be every bit as great in the Bay Area as elsewhere.

This assessment is based upon several considerations. One is California's dependence upon outside sources of energy supplies—primarily Canada and Texas—for three-quarters of its natural gas and oil requirements. A second is the prospect of, at best, a stable supply of hydroelectric power (including power imported from the Pacific Northwest). A third is California's (and the Bay Area's) relatively rapid population growth, and a fourth is the soaring rate of per capita energy consumption which has accompanied the growth in population and incomes. The State Resources Agency, for example, has placed California's energy requirements in 1985 at double those of 1970. And if this seems remarkable, consider the fact that in the 9-county Bay Area, consumption of gas by businesses, households and the utilities increased by 72 percent between 1960 and 1972, while consumption of electricity more than doubled—far

outpacing a 30 percent increase in the area's population. This is but one more dimension of our "rising standard of living."

California, of course, has substantial proven oil reserves, including off-shore reserves, which hopefully can be tapped, under appropriate safeguards, to avoid a repetition of the 1969 disaster which still finds 400 barrels of oil a day seeping from platform "A" in the Santa Barbara Channel. And in order to accommodate expected future energy demands, the utilities themselves are counting on a sharp rise in their own consumption of oil (from 7 percent of their energy sources in 1970 to almost 30 percent in 1985) and upon an even greater rise in the use of nuclear fission materials (from 1 to 40 percent of their energy sources). This prospect, of course, is viewed with misgiving by a considerable segment of the population, and is a source of some of the "no growth" sentiment. However, with this specific consideration in mind, and with the energy, the environmental and the population situations all considered in the larger context of the Bay Area's future, several observations may be pertinent.

No Growth Not the Answer

The first is that "no growth" clearly is not the answer, and for several reasons. One is that heavy investments—much heavier than in the past—are going to be necessary both to finance new, alternative and clean sources of energy, **and** to put our environmental house in order. A second reason is that additional financial and real resources of some type will be necessary to provide jobs not only for present residents of the Bay Area who are now unemployed, but to accommodate the

hundreds of thousands of Bay Area children who will enter tomorrow's job market—a market which, they no doubt hope, will be in the Bay Area. Finally, imagine for a moment the intensity of the tensions which would result in our society if the already conflicting claims of various groups had to be divided up on the basis of a no-growth economic pie.

Harmonized Objectives

A second observation is that, far from posing a conflict with environmental objectives in the long run, the energy problem may lend credence to a number of proposals long advocated by environmentalists. These proposals include the need for energy conservation through the elimination of waste (estimates of waste range from $\frac{1}{4}$ to $\frac{1}{2}$ of energy consumption), the development of mass transit systems to reduce dependence upon the automobile, and growing recognition that the resources of Spaceship Earth are indeed finite.

Industries of the Future

A third and related observation is that, given the nature and magnitude of the growth and environmental problems which have emerged in our society generally, it is at least conceivable that heavy industrial enterprise may cease to be the key wealth-producing and innovative force. If this assessment is correct, not only are environmental industries likely to rank among the growth industries of the future, but information technology will itself assume critical importance by providing a much better basis than we now have for reassessing our goals and formulating specific policy alternatives. Inevitably, such policies and programs will require a total or social accounting system, one which includes the cost of the amenities. Without

such a system an accurate assessment of the trade-offs between various types of growth is extremely difficult.

Certainly efforts to measure and assess both the environmental and economic impacts of growth policies are a step in the right direction. In any event, given the Bay Area's relatively lesser dependence upon heavy industry, these considerations suggest to me that the future of Bay Area research and development industries, in liaison with the area's world-renowned higher education facilities, will be every bit as dynamic as in the past—perhaps even more so, given what is at stake.

Summary

To sum up, I have noted that the stresses and strains produced by growth have made the Bay Area a focal point of anti- and controlled-growth sentiment, and that this sentiment is partly economic and not just environmental and ecological. I also have attempted to identify a few of the factors that will influence the nature and profile of economic activity in the Bay Area over the next several decades, keeping in mind the fact that our future is not foreordained. In part, it will be influenced by policies and actions at both the state and Federal levels, including policies bearing upon such matters as land-use, energy and housing. But first and foremost, our future, and the success or failure of efforts to harmonize growth and environmental objectives, will be determined by the development of coordinated and comprehensive planning and growth policies at the **metropolitan** level.

While the no-growth approach clearly is not a feasible solution to the problem of maintaining environmental balance, the prospect of a slower population growth

and an attendant reduction in pressure on real resources is not something to be lamented. It is, in fact, an objective whose implementation would be facilitated by a number of recommendations made by ABAG. At the same time, there is every justification for developing a policy to assure that economic growth, in both its structure and spatial distribution, occurs in those sectors which are less "entropy" or "disorder" creating. Specifically, these sectors would include finance and international trade, as well as R&D activities. The latter, as I have indicated, might play a critical role in filling our information gap and thereby helping to determine just which types of growth are in fact consistent with considerations of environmental balance. And certainly the appropriate growth areas would include the services sector—especially here in the Athens of the West, where a growing demand for more and better education and a surge of interest in recreation and the arts demonstrate a deep interest in those activities which are mind-expanding in the noblest traditions of civilized men.

In conclusion, I would note the recent comment of an official of the California Chamber of Commerce, who observed that "most logical-thinking business leaders, legislators, economists and every day citizens are in agreement that growth simply for growth's sake is no longer the order of the day." I would suggest that this assessment represents both a challenge and an opportunity, and the Bay Area has a demonstrated capacity for dealing with both. Personally, I also believe that our area, which counts, among its contributions to Western civilization, magnificent wines, Pisco Punch and the Martini, has a good chance of finding the answer to its problems.

