

# URBAN AGE SÃO PAULO WORKSHOP

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*Centro/city design round table:  
Issues, challenges, policy options*

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# Centro/city design round table: Issues, challenges, policy options

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# The Economics of Cities

- Economists define cities as “the absence of physical space between people and firms.”
- The demand for cities comes from the demand for proximity: you live in a city to eliminate distance.

# The Demand for Density

- The value of proximity is that it eliminates transportation costs for goods, people and ideas.
- Urban change is driven by changes in the demand for connection and changes in transportation technology and costs.

# Transporting Goods

- Cities begin as ports and centers of industry supplying home markets.
- The cities of the Americas exist because they are shipments points moving wealth from the New World to the Old.
  - New York, Boston, San Francisco
  - Recife, Sao Paulo, Buenos Aires

# Declining Transport Costs

- Planes, trains, and trucks have led to a massive reduction in costs of moving goods.
- As a share of US GDP transport spending in 1985 is  $\frac{2}{3}$  of what it was in 1960.
- The urban landscape is being re-written by this change
  - Consumer cities replace producer cities.

# Cities and Moving Ideas

- The productive advantages of cities come in part from their edge in moving ideas.
- Technology firms locate in technology clusters to stay current.
- Individual workers move to places to learn from other workers.
- Financial clusters are a classic example.

# Moving People

- Urban proximity provides the ability for people to connect with one another.
- Firms and workers need to be near one another in production.
  - The growing service economy particularly relies on moving people.
- The social advantages of cities also come in part from proximity.

# The Car

- The biggest factor impacting urban form over the last century has been the rise of the automobile.
- In the U.S. car ownership rose from nothing to over 90 percent per housing (76/100 people).
- In São Paulo 55% commute to work by car.

# The U.S. vs. Europe

- Europe has a different model.
  - Public transportation is highly subsidized.
  - Gas is highly taxed.
  - Cities are in general more subsidized.
- Result: much more density, much less sprawl.
  - Suburbanization of the poor.
- Latin America appears to be heading in the same direction – towards Car Cities.
  - But there are exceptions such as Bogotá.

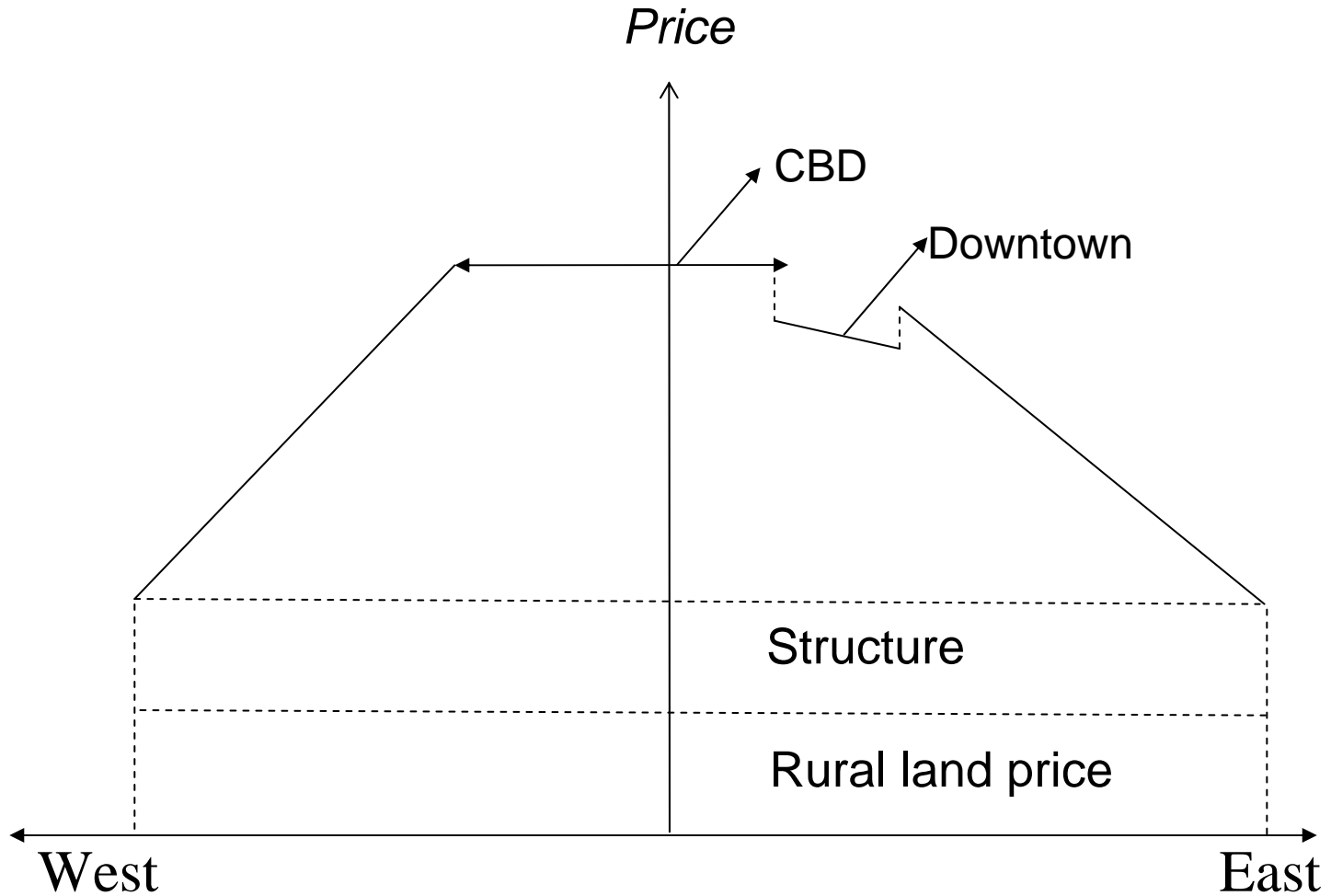
# Income and Cars

- Currently Brazilian Sprawl is Limited by Limits on Income.
  - But gas prices look more like U.S. than like Europe.
- As Brazil gets richer, it will probably move to U.S. model unless public transportation is massive subsidized, gas is taxed, congestion tools are implemented, etc.

# The Crisis of Congestion

- In principle, using cars instead of feet and public transportation is fine, but the externalities from traffic are quite large.
- Basic problem: drivers don't internalize the costs that they impose on other drivers.
  - Too many drivers at peak hours.
- However a more compact city has also higher land price and (*ceteris paribus*) is more segregated.

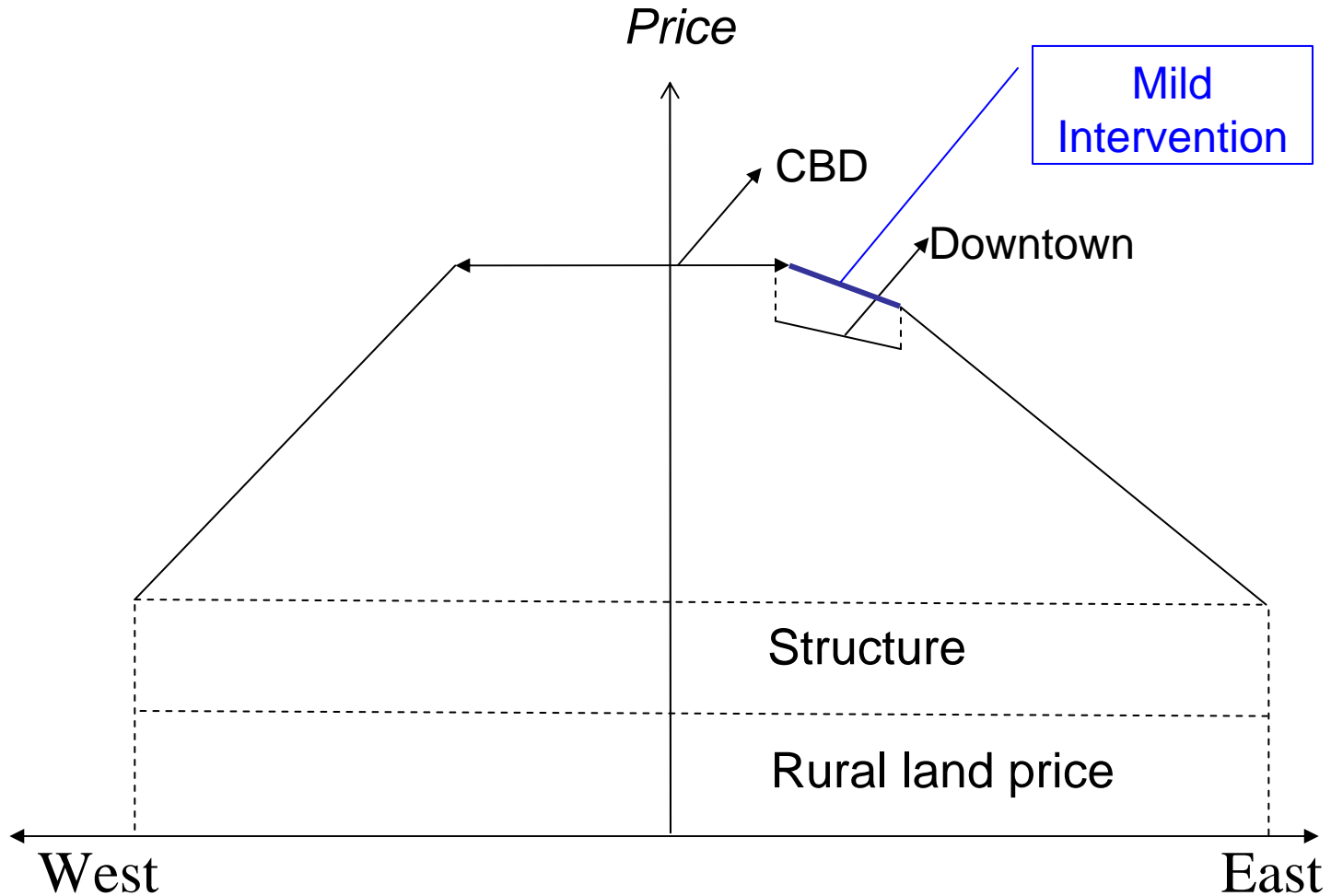
# The problem in downtown



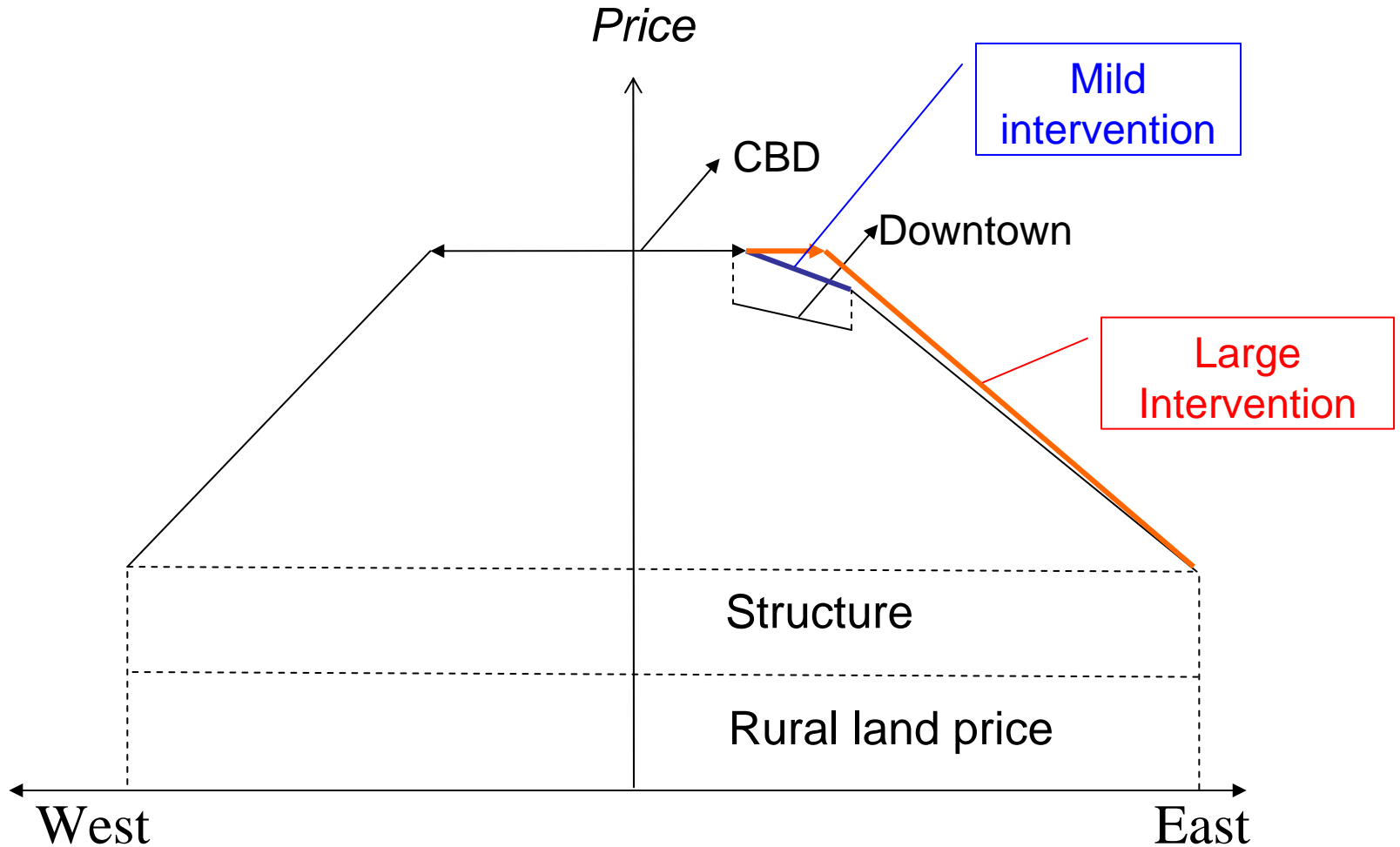
# Why is there degradation?

- Brownfield: contamination, crime, war: vicious cycle.
- Architecture matters I: available buildings do not have the attributes desired by the market but the premium for adapting the building does not pay demolishing costs.
- Architecture matters II: maintenance costs and property taxes are higher than the rent.
- Business center competition: everybody want to be where everybody else are.

# Renovating downtown: two alternative policies



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- A large investment may connect downtown to the current CBD.
- Mild investments may solve the problem of hidden resources (e.g. vacancy) with lower impact on prices.
- Gentrification will happen in any case if it is defined as an increase in the income.
- No gentrification means no rent generated. The only way to distribute income in this case is generating rent.

# Renovating downtown: two alternative policies

- Basic economic law: hidden resources represent economic inefficiency.
- Conservation of historic buildings may be a normative goal but the maintenance costs are high.
- The mix use prevalent in downtown is an opportunity for building a less segregated city.