

Why "Smart Growth" Is "Not-Smart Economics"

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EXECUTIVE SUMMARY

"Smart growth" is a misguided and, ultimately, harmful set of land-use policies intended to curb "sprawl," the growth of suburban areas. First, and foremost, the "problems" it aims to solve are either trivial or non-existent. Concerns are made clear in the Sierra Club's "1999 Sprawl Report," which received a great deal of media attention but very little scrutiny. It claims that "poorly planned development is gobbling up...parks and open spaces;" that "[d]evelopments are replacing farmers' fields, [and] disrupting small-town agriculture;" "that residents of sprawling communities drive three to four times as much as those living in better-planned communities;" and that "[a]ll that driving means more air pollution."

The Sierra Club's assertions are either misleading or false.

- **Farmland development** – According to the Sierra Club, "every year in the United States 1 million acres of productive farmland and open space get bulldozed by sprawling development." That million acres is only 0.1 percent of the 931,800,000 acres of farmland in the U.S., and only 0.05 percent of the 1.905 billion acres of total land area. Only 4.7% of the nation's entire land area (not counting Alaska) is developed, and new development is occurring at less than one twentieth of one percent of national land area per year.
- **Food production** – Vice President Al Gore has stated that "America, which is losing 50 acres of farmland to development each hour, could become the largest net importer of food." But the USDA's index of American farm output rose from 79 in 1980 to 94 in 1990 to 106 in 1996, despite decreases in farm acreage. The U.S. continues to export far more food than it imports and can be expected to do so for the indefinite future.
- **Commuting times** – According to data from both the Bureau of the Census and the Nationwide Personal Transportation Survey (NPTS), average commuting times are not increasing. "[F]ewer than 6 percent [of commuters] traveled longer than 60 minutes" (one way) in 1990; average (one-way) commuting time was 22.4 minutes. According to the NPTS, in fact, "average commuting times fell from 22.0 minutes in 1969 to 20.7 minutes in 1995."
- **Air pollution** – Auto pollution clean-up has progressed faster than total vehicle mileage. In fact, total vehicle mileage more than doubled between 1970 and 1995, but auto-related pollution emissions decreased.

Ultimately, "smart growth" is nothing more than centralized government planning of private land use. By definition, it substitutes, by fiat, the priorities and values held by anti-sprawl

interest groups for the priorities of individual property owners and those who enjoy the amenities of suburban living. In this sense, it is more about the legislating of personal aesthetics than the efficient use of land and resources.

As economists have known for decades, and the collapse of the former Soviet Union has proven, government planning of resource usage cannot be "smart." The issue is not whether land use should be planned or not, but whether land use planning will be done by government bureaucrats or by those who own the land. Central planners, who operate outside of a market environment, i.e., who are not attentive to market prices and are unmotivated by the prospect of profits and the fear of losses, would be utterly unable to obtain the information necessary to determine land use in the general public interest or to arrive at an economically efficient result.

Why "Smart Growth" Is "Not-Smart Economics"

*By Howard Baetjer, Jr., Ph.D.**

"Smart growth" refers to a set of land-use policies intended to curb "sprawl," the growth of suburban areas. "Smart growth" is a misguided and, ultimately, harmful set of policies. The "problems" it aims to solve are either trivial or non-existent. Furthermore, "smart growth" offers no means of deciding among the various and conflicting values involved in land-use. Rather, it privileges by fiat one set of values, held by the anti-sprawl interest group, over conflicting values held by others who enjoy the amenities of suburbia. Finally, even if central planners could make "smart growth" land-use decisions strictly with the general public interest in mind and free of any political machinations, they would be utterly unable to obtain, outside of a market environment, the information necessary to arrive at an economically efficient result. Accordingly, "smart growth" policies, even at their theoretical best, could not determine land-use in the general public interest as effectively as the impersonal market process does.

I. Anti-sprawl Rhetoric v. the Data

The first fatal weakness in the anti-sprawl agenda is that it depends on the false notion that suburban sprawl is the cause of serious environmental and social problems. Concerns about sprawl are made clear in such publications as the Sierra Club's "1999 Sprawl Report,"¹ a publication that received a great deal of media attention but very little scrutiny. Its authors worry that "poorly planned development is gobbling up our beloved parks and open spaces at an alarming rate." They lament that "[d]evelopments are replacing farmers' fields, [and] disrupting small-town agriculture and a way of life." In respect to transportation, they claim that "[g]etting people from place to place in sprawl-choked communities is costing us dearly," and that "[a]ll that driving means more air pollution." "Studies show," they assert, "that residents of sprawling communities drive three to four times as much as those living in better-planned communities."

How bad are these problems, if they exist at all? In particular, are we running out of open land, especially farmland? Does development of agricultural land threaten our domestic food supply? How much more time are we spending "getting ... from place to place in sprawl-choked communities"? What about air pollution? Some broad data on these issues expose the Sierra Club's statements as baseless fear mongering.

¹<http://www.sierraclub.org/sprawl/report99>.

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- **Farmland development** – According to the Sierra Club, "every year in the United States 1 million acres of productive farmland and open space get bulldozed by sprawling development."² That million acres annually seems large until we consider that it is only 0.1 percent of the 931,800,000 acres of farmland in the U.S.³, and only 0.05 percent of the 1.905 billion acres of total land area.⁴ Only 4.7% of the nation's entire land area (not even counting Alaska) is developed, and new development is occurring at less than one twentieth of 1 percent of national land area per year. Also *farmland*, as such, must be distinguished from *cropland*. According to the Department of Agriculture, "[t]he size of the cropland base has been remarkably stable ... at about 440-480 million acres over the past 5 decades." Also "[t]he proportion of cropland classified as 'prime' has remained remarkably stable. Only about 1 percent of all U.S. prime soil ... was converted to urban use between 1982 and 1992."⁵
- **Food production** – Vice President Al Gore has stated that "America, which is losing 50 acres of farmland to development each hour, could become the largest net importer of food, instead of the world's largest exporter of food, by the next century."⁶ Gore implies, directly counter to experience, that loss of farmland might cause America's food production to decrease. In fact, it is more likely that surging *increases* in American food production⁷ and productivity per acre will cause continued transfer of marginal farmland out of farming and into higher-valued alternative uses. The USDA's index of American farm output rose from 79 in 1980 to 94 in 1990 to 106 in 1996,⁸ despite decreases in farm acreage. The U.S. continues to export far more food than it imports and can be expected to do so for the indefinite future.⁹

²Sierra Club, *1999 Sierra Club Sprawl Report*, Open Space Protection page, accessed at <http://www.sierraclub.org/-sprawl/report99/openspace.asp>.

³*1999 Statistical Abstract of the United States*, p. 675. Figures are from 1997.

⁴*Ibid.*, p. 240. The figures exclude Alaska and areas covered by water.

⁵*Cropland Use and Urbanization*, Economic Research Service Issues Center, United States Department of Agriculture, October 26, 1999, accessed at <http://www.econ.ag.gov/whatsnew/issues/landuse/index.htm>. This is a succinct and clear discussion of the topic.

⁶Speech made at the Brookings Institution. Quoted in Samuel R. Staley, "The 'Vanishing Farmland' Myth," *Policy Brief* No. 12, January 2000, Reason Public Policy Institute, p. 1.

⁷"Agricultural productivity has increased 245 percent over the past 50 years, and continues to increase." *Cropland Use and Urbanization*, *op. cit.*

⁸*1999 Statistical Abstract of the United States*, table 1119, p. 684. Accessed at <http://www.census.gov/-prod/99pubs/99statab/sec23.pdf>.

⁹*Ibid.*, tables 1120 and 1121, p. 684.

- **Commuting times** – According to data from both the Bureau of the Census and the Nationwide Personal Transportation Survey (NPTS), average commuting times are not increasing. "[F]ewer than 6 percent [of commuters] traveled longer than 60 minutes" (one way) in 1990; average (one-way) commuting time was 22.4 minutes.¹⁰ According to the NPTS, in fact, "average commuting times fell from 22.0 minutes in 1969 to 20.7 minutes in 1995."¹¹ Commuting times have fallen even though "vehicle miles traveled [have grown] much faster than roads." This is partly because more people are making shorter suburb-to-suburb commutes. This has led to an increase in average commuting speeds since suburban roads are less congested than city streets.¹² This suggests that the problems of city congestion are being solved by the suburbanization of life.
- **Air pollution** – Auto pollution clean-up has progressed faster than total vehicle mileage. Accordingly, "although total vehicle mileage more than doubled between 1970 and 1995, emissions of all auto-related pollutants declined."¹³ We can expect cars to keep getting cleaner. Honda Corporation says that "in two or three years, it will be selling gasoline engines that are as clean as electric motors, if one factors in pollutants emitted by electric-power providers."¹⁴

In light of these data, the Sierra Club's assertions are either misleading or false.

These data provide a very useful perspective on policy toward suburban sprawl. They demonstrate that the choice we face in respect to sprawl is not the frightening, either-or choice of whether or not to surrender the entire countryside to the bulldozer as presented by the Sierra Club and Al Gore. Rather, it is the ongoing choice of what small portions of the remaining vast quantities of undeveloped land it makes sense to develop in fast-growing areas.

The data also lead us to question the motives of anti-sprawl activists. These motives cannot be to head off the problems about which the Sierra Club and the Vice-President write and speak so ominously, because those problems do not exist. Their actual motivation seems rather to be a passionate commitment to a particular set of values or preferences. Their passion and

¹⁰Peter Gordon and Harry W. Richardson, "Critiquing Sprawl's Critics," *Cato Policy Analysis* #365, January 24, 2000, p. 7.

¹¹Wendell Cox Consultancy, *The Public Purpose*, accessed at <http://www.publicpurpose.com/ut-6995commute.htm>.

¹²Gordon and Richardson, *op.cit.*

¹³Arnold Howitt and Alan Altshuler, "The Politics of Controlling Auto Air Pollution," in *Essays in Transportation Economics and Policy*, ed. Jose Gomez-Ibanez, William Tye, and Clifford Winston (Washington: Brookings Institution, 1999), p. 223.

¹⁴"Honda Bets Its Engines Will Give It The Oomph to Remain Independent," *Wall Street Journal*, March 15, 2000, front page.

their willingness to impose their preferences on individuals who would not freely choose them present a significant threat to both individual liberty and our economic well-being.

II. "Smart Growth" as Legislating Values

The idea that "smart growth" is, in its essence, a way for some people to impose their particular values on everyone else is supported by the fact that the accomplishment of all of its goals depends on the use of government force. The key elements of "smart growth" policy are:

- To force limits on the size of urban areas by imposing urban growth boundaries beyond which further development is prohibited, or by obtaining "purchased development rights" (PDRs) with taxpayers' money.
- To force denser development in order to force people to live closer to one another. For example, The World Resources Institute has argued that new housing developments in suburban settings should be limited to no fewer than nine units per acre. This is, supposedly, the ideal level of density for the development of light rail transit systems.¹⁵
- To shift transportation funds from roads to mass transit, to increase gasoline taxes (some "smart growth" supporters have advocated gasoline taxes as high as \$2.00 per gallon),¹⁶ and to require shopping malls to charge for parking, all in order to force people to use cars less and mass transit (or walking or bicycling) more.

These policies are meant to impose the preferences of the "smart growth" advocates on the community. These advocates put a very high value on slowing the pace of land development and reducing new road construction. Keeping as much land as possible in undeveloped open space seems to be their primary goal. This is to be done by cramming people into as little space as possible. Reducing car usage and promoting public transportation is a secondary goal. And, to those with conflicting preferences, "smart growth" advocates say, in effect, "it doesn't matter what you want."

In a free society, conflicts among people's various legitimate preferences must be resolved by a process of mutual accommodation that respects everyone's rights. This is why "smart growth" is not only inconsistent with economic efficiency, as will be argued below, but is also inconsistent with life in a free society.

¹⁵James J. MacKenzie, Roger C. Dower, and Donald Chen, *The Going Rate: What it Really Costs to Drive* (Washington, D.C.: World Resource Institute, 1992).

¹⁶*Ibid.*

It is not being argued that there is something objectionable about the values of "smart growth" supporters. It is their willingness to impose these values on others, not the values themselves, that is at issue. If more farms, parks, and open spaces, less air pollution and shorter commutes could be had for nothing, who would not sign on? In reality, though, we have to give up other things in order to obtain these benefits, and we have to balance these other wants and objectives against the desire for open space.

In particular, many of us like to live in single-family houses on a half-acre or more of land. We like saving thousands of dollars on such housing — that preference requires locating the houses in outlying areas where land prices are lower. By "sprawling out" to less expensive land, we can live more cheaply, allowing us to save money for our children's orthodontia and college tuition. We like the convenience of dropping our children off at school on the way to work, and stopping at the cleaners or grocery store on the way home — that preference requires using our own cars (while not having to pay for parking each time we pull into the shopping center). We like having retail stores and movie theaters close to where we live — that preference requires commercial developments near our suburban housing. We like working outside the city and getting from home to work quickly — that preference requires high-speed roadways. We also value our privacy while commuting to work and the ability to come and go as we please — things that are not preserved while using public transportation and having to rely on transit schedules.

Farmers, too, have concerns other than farming. When the Sierra Club says that "[d]evelopments are replacing farmers' fields, [and] disrupting small-town agriculture and a way of life," they imply that developers are driving farmers from their land against their wills. Not at all. Farmers (at least those whose property rights are respected) may sell their land or continue to farm it as they please. When developers purchase farmers' land, the farmers *choose* to sell. They cash out for more money than they expect farming to bring, and pursue other objectives of their own choosing with the proceeds.¹⁷ An important exception, which not surprisingly goes unnoted by "smart growth" advocates, is that sometimes farmers' descendants are truly forced to sell their farms against their will in order to pay estate taxes. Of course, the solution to this problem is not "smart growth," but to repeal estate taxes.

What "smart growth" advocates ignore is that their values and preferences conflict with the equally legitimate values and preferences of other people. The advocates' rhetoric shows no respect for what others must give up if the "smart growth" objectives are to be achieved.

¹⁷It is true that some farmers who would like to keep farming despite rising land values find doing so impossible: As their neighbors sell out, supporting businesses such as machinery and fertilizer dealers become scarcer and obtaining repairs and supplies becomes more expensive. The higher input costs can put marginal operations into the red. Even in such cases, however, it is free choices of other farmers that change the economic situation for those who remain, not coercive developers.

In such cases, where there are inescapable conflicts among differing objectives, choices must somehow be made among them. The key question is *what method of choosing among various land-use possibilities will best accommodate the various and conflicting values of the extended community?*

"Smart growth" advocates don't even address this question. Their clever name implies that we need not debate *how* to choose among conflicting values, because the smart choice is already clear. What's smart is what *they* want. Alternative uses of land that others might value more highly will be sacrificed.

The willingness of "smart growth" advocates to impose their values on others becomes clear when we focus on the sacrifices that others will need to make in order to accommodate the aesthetics of "smart growth." In particular:

- Forbidding development beyond urban growth boundaries forces homeowners either to pay more for housing within the politically imposed boundary (thereby sacrificing the orthodontia, tuition, etc. they would have preferred to buy), or to live entirely outside the restricted area (and thereby endure an even longer and more costly commute). According to the National Association of Home Builders, Portland, Oregon, with strictly controlled urban growth boundaries, is ranked as the 174th most affordable (the second least affordable) city in the country. In 1991 it was ranked as the 55th most affordable.¹⁸ Only 39 percent of the residents can afford the average priced home, compared to 78 percent in Atlanta.¹⁹
- Forbidding development beyond urban growth boundaries disregards the well-being and property rights of farmers in the restricted areas. Prohibiting farmers from selling their farms to whomever they please dramatically lowers the value of farmers' main asset, their land. In effect, urban growth boundaries tax farmers and other land holders outside the boundary and transfer the booty to those who own property where development is allowed. While "smart growth" might favor farmland, it stands in direct opposition to farmers and their property rights. Ironically, while claiming to be pro-farmland, it is distinctly anti-farmer.
- Local governments purchasing the development rights to undeveloped land forces taxpayers to pay for what most of them do not particularly value. Because it drives up the price of land for development by reducing the available supply, it further punishes those trying to rent or purchase new housing. Conversely, PDRs provide a windfall to those who already

¹⁸Daniel R. Simmons, "Let the Communities Decide," *The World and I*, February 2000, p. 69.

¹⁹Wendell Cox, "Portland Not Sprawl Free," *Atlanta Constitution* (op-ed) June 23, 1999, accessed at <http://www.demographia.com/db-atlconst.htm>.

own their housing or who own land that is still allowed to be developed by increasing the prices of those assets. Hence, PDRs amount to a wealth transfer from taxpayers and those who would like to move into an area to favored groups who are already there. The potential for abuse of PDRs by local special interests is apparent.

- Requiring denser development forces people to live on smaller lots and, ultimately, in smaller living spaces than they would choose, crowded closer to their neighbors. While "smart growth" advocates show great concern for increased traffic problems (imagined or real) and congested driving, they are perfectly willing to force people into congested patterns of living with all the "neighborhood effects" (noise, odors, etc.) and increased crime problems that typically go with it.²⁰
- Promoting mass transit at the expense of roads forces the majority of taxpayers to pay for transport they neither want nor use and to endure more traffic congestion on fewer highway lanes. Americans clearly prefer cars to mass transit.²¹ Consequently, much of the mass transit in the United States, especially the rail systems built in recent decades, has been a waste of money. None of the rail systems even covers its operating costs, let alone its construction costs. Between 1980 and 1990, 14 metropolitan areas expanded or built new rail transit systems. But only one of these cities actually expanded public transportation's share of the work trip market. This was Phoenix, which went from a barely noticeable 2 to 2.1 percent.²² The fact is that while surveys regularly find broad approval of mass transit in the U.S., it appears to be motivated by a widely shared hope that others will use it so that the respondent can enjoy his car on less crowded roads.

The Sierra Club's moralistic rhetoric implies that the sprawl issue is a matter of important versus unimportant values, of smart versus stupid. Preserve farms and use mass transit — important and smart. Build new subdivisions, office parks, and freeways — unimportant and stupid. But all this is false. Ultimately, the rhetoric serves as cover for using the political system to impose a particular aesthetic on the populace. Indeed, "smart growth" is as much about legislating morality as it is about managing development.

²⁰See Roy E. Cordato, "The Central Planning of Lifestyles: Automobility and the Illusion of Full Cost Pricing," Competitive Enterprise Institute, Automobility and Freedom Project, July, 1997.

²¹Gregory Ingram and Zhi Liu, "Determinants of Motorization and Road Provision," in Gomez-Ibanez, Tye, and Winston.

²²See Michael Lowrey and Jonathan C. Jordan, "Flex Growth," *Policy Report No. 29*, August 29, 1999, John Locke Foundation, pp. 9-18 for an excellent history of transit in the U.S.

III. The Economics: Government Planning vs. the Freedom to Plan

From the perspective of economic efficiency, the goal of land-use policy should be to make the best overall use of each parcel of land, *everyone's* values considered. Smart growth's centralized decision-making process cannot do this. Smart growth's government mandated planning insures ignorance in making such assessments.

From the perspective of history, there is a bitter irony in the term "smart growth." Calling its proposed restraints on growth "smart" implies that there is more knowledge and judgment involved in a centrally-planned approach to land-use than in the free market process. The irony is that this is precisely the error on which the central-planning disasters of the past century were based. The Soviet mindset thrives, unrecognized, in well-intentioned advocates of "smart growth."

Their argument is exactly backwards. Central planning, whether of the entire Soviet economy or of regional land-use and transportation, cannot be as well informed and, therefore, as economically efficient as decentralized planning through the market process. It cannot because, as Nobel Prize winning economist F.A. Hayek has pointed out, the knowledge that economic planning must have and use is knowledge of the ever-changing inner feelings and personal preferences of thousands of people. Hence, "smart growth" faces what economists call "the knowledge problem" — central planners can't possibly learn what they must in order to plan effectively.²³ The feelings and preferences of the public can be made known only through market prices resulting from free and decentralized decisions of property owners, sellers, and buyers. Since central planning regulations distort or suppress market signals, "smart growth" policies necessarily rob land-use decisions of the knowledge and judgment that market prices communicate to market participants.

For land-use to be "smart" in fact, not just in name, decision makers must take account, as well as possible, of *all* relevant considerations. In a society as complex as ours, this is a tall order, because there are so many interdependent values at stake and so much different information to be incorporated. This can only occur if the planning process is decentralized and carried out by individual property owners making planning decisions according to their own values and priorities. It should be made clear, then, that we are not talking about planning versus no planning. Instead, the comparison is between bureaucratic planning by a few for others in the

²³The fundamental argument of this section is derived from Hayek's illuminating article, "The Use of Knowledge in Society," *American Economic Review*, XXXV, No. 4 (September, 1945), 519-30. See also Hayek's other work on the socialist calculation debate, published in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948). The socialist calculation debate was started by Ludwig von Mises with his 1920 article, translated as "Economic Calculation in the Socialist Commonwealth," in F. A. von Hayek, ed., *Collectivist Economic Planning* (London: George Routledge and Sons, 1938).

community and a process by which people are allowed to freely plan for their own lives based on their own circumstances.

A. "Smart Growth" and the Problem of Bureaucratic Planning

Consider a simple example. Imagine a forty-acre plot of farmland just outside the suburban developments (sprawl?) of an American city. How should this land be used? Possibilities might include a dairy, crops, low-density housing (say, one house per every 2 ½ acres), higher density housing (perhaps townhouses), or commercial development such as office or retail space. Suppose you and I were members of a planning board charged with deciding how this land should be used. Suppose, further, that the whole board genuinely wants the land used in the way(s) that best serve the public's actual interest, *everyone's values considered*. In other words, we genuinely want to make economically efficient use of the land, to devote it to its highest valued use.²⁴

Suppose, further, that we do not come to our task with any prior agenda — we are not agents of the anti-sprawl interests, determined to limit development; nor are we in the pockets of developers seeking subsidies. What would we need to know to decide in society's overall best interest? Evidently, we would have to figure out how valuable the land would be, to society overall, in its various possible uses. How would we estimate these values?

Let's begin with the land's agricultural value. That depends on the value of the wheat or corn or soybeans, or perhaps milk or vegetables that might be produced there. In order to determine *that*, we'd have to know how urgently consumers want the additional food that would be produced on this land. In order to know *that*, we'd need to know how readily consumers could get such foodstuffs from other sources instead. Because many foods are good substitutes for one another, we'd also have to know how plentiful or scarce are the *alternatives* that might suit people as well. Pursuing this issue adequately would require us to know consumers' food preferences as well as the sufficiency of agricultural production of many kinds, not only in our area but also around the world. After all, the products that might be produced on our forty acres are produced elsewhere and are imported and exported around the world.

Another source of the value of this land as farmland lies in the way of life it provides farmers. How urgently do the owners of the land (or other possible buyers) want to be farmers? Somehow we would need to know how much it means to them, how much they would sacrifice to stay on as farmers instead of pursuing their next best opportunity.

Still a third source of the value of our forty acres as farmland is the aesthetic enjoyment many people take in looking at farmland, or simply knowing it is there. Many who drive by the

²⁴As discussed above, this is not the goal of "smart growth" advocates whose primary purpose is to impose their preferences on those living in the community, regardless of the value placed on alternative land-uses by others.

land would prefer to see a farm there instead of houses. Neighbors may appreciate the wildlife habitat on that farm, in seeing hawks overhead, and in their children's excitement at seeing cows or tractors. Of course we would have to focus on the "external benefits" from *this particular farmland*. The more farms there are around, the less important are the incremental external benefits from this particular farm.

Without a market to price the land for us, it would be impossible for us as central planners to estimate the importance of any of these benefits. All of this information reflects people's subjective "feelings" and are both unmeasurable and even unknowable by our planning board.

Beyond this, though, even if somehow we could make these evaluations, we would also need to assess the land's value if it were to be developed, and to compare this value to its value as farmland. How valuable would housing on that location be? In order to judge this, we would have to know how attractive a location it would be to all the various people who might consider living there. We would first have to know who these people were. Presumably, they would include people who currently live outside the area, possibly all over the world. Simply to identify the population of people whose preferences should be considered would be impossible. We would need to know the attractiveness (as these prospective buyers judge it) of alternative housing available, not only in this community, but in all communities that are being considered by these perspective buyers. To estimate *that*, we would need to know their desire for more spacious housing in suburbia. We would need to know the proximity of the land to good job opportunities, schools, grocery stores, etc. and how this is valued by prospective home buyers. We would need to know how rapidly businesses in the area were growing and hiring new employees.

We would have to continue this futile exercise for use of the land as retail space, office space, and in all its other possible uses. Surely, it is clear that the task facing any land-use planning board that genuinely wants to be *smart* is impossible. The sheer quantity of highly specialized information the planners would have to accumulate — about the different values and plans of all the people possibly affected and all the alternatives available to them — is unmanageably large. Even if it were possible to assemble this information, it would take so long to accumulate it that by the time the board got around to processing it, there is no reason to think that it would be relevant. All of this information depends on particular populations of people having particular preferences at particular points in time. As time passes, people's circumstances and preferences change.

Notice, also, that even if a planning board could successfully accomplish this gigantic task of calculating the best use of a particular piece of land, we have considered only one generic forty-acre tract. In actual practice, the planning board, in order to be "smart," would have to consider all tracts in its jurisdiction. Truly "smart" central land-use planning is clearly beyond the capabilities of any group, no matter how brilliant and well-intentioned.

B. Land-Use and the Freedom to Plan

What would it mean to leave land-use decisions to the unhampered market? It would mean, fundamentally, that owners of land would have the right to decide how their land is used, i.e., they would have the freedom to make their own plans. There would be no bureaucrats planning overall land-use. Instead, planning would be carried out in a *decentralized* manner, with all the different owners of land planning the use of their individual parcels. For the kinds of concerns discussed in our example, this would mean making decisions on the basis of earning profits and avoiding losses.

These profits and losses are determined by market prices, and market prices reflect a tremendous amount of detailed information about the values of *others* in society and about the availability of other resources. *The market process motivates property owners to serve others well, and provides them with the information they need to do so.*

Take the case of our hypothetical forty acres of farmland. Suppose the owner is moving away and decides to sell the land either to another farmer or to a housing developer, depending on who offers the higher price. At first glance, such a decision seems to take no consideration of the various goals of the rest of society. Money, profit — greed, if you will — is the motivator, and "the public interest be damned."

But that appearance is wrong. Deciding land-use in favor of the highest bidder is precisely to *accommodate the diverse and conflicting values and preferences of the various people of the community*. Such accommodation is not the intention, but the effect, of the profit-based decision. This is because the different *prices* offered for that land in different uses embody, to the extent possible, the information our planning board would have struggled in vain to collect. And the simple comparison of price is all the calculation needed to determine the best use overall. The highest price offered indicates the most highly valued use.

Consider what those prices mean. What farmers will pay for the land reflects both their expert knowledge of what crops can be grown on that particular piece of land at what cost, and their informed expectations of how urgently the general community wants the foodstuffs they might produce there. How do farmers judge this? They consult foodstuff prices. Those prices, in turn, contain information about the other factors we discussed above: consumers' preferences, how much is available from other sources, the scarcity or plenty of alternatives, and so on. The prices farmers offer for the land also reflects the value to themselves of staying in farming. The more that way of life means to farmers, the higher price they will offer.

Even the values of conservationists are reflected in land prices. In a free market, conservationist groups such as the Nature Conservancy or the Audubon Society are just as

entitled to bid on the forty acres as are farmers and developers.²⁵ Another possibility is that conservationists can keep the land in farming by purchasing only the development rights to it. That way, if the land is more valuable to others for housing than for food, the conservationist groups must only pay the landowner enough to offset the difference between the price offered by developers and the price offered by farmers. Various land trusts around the country do exactly this. Developers, too, can profitably accommodate people's preferences for living near open land by buying development rights to surrounding tracts and contractually binding themselves to leave that land open. Home buyers who truly value being near undeveloped space will pay a premium for such housing. Market experimentation will reveal just how valuable such proximity to open space actually is to home buyers (and whether, in fact, it is more important to them than a new house on the space would be to someone else).

In short, the price offered to use the land for farming reflects with remarkable thoroughness the value of that use to all the people directly or indirectly involved.

The same principle applies to assessing the value of the land for housing. The amount that developers will pay for the land depends on the prices they expect families to be willing to pay for new housing on that location. Those expected housing prices reflect the value families attach to housing there, given local job opportunities, schools, amenities, and commute times. They reflect the availability of alternative housing. They reflect the developers' knowledge and expectations of planned business expansion in the area. The price offered by developers, in short, reflects very closely the value the public places on housing on that land.

Leaving land-use decisions to the unhampered market thus means basing land-use decisions on as much information as possible about people's actual values and priorities rather than those that "smart growth" advocates think they should have. Paradoxically, private owners' pursuit of the best return on their property drives them to compromise and make accommodation. It is as if they ask those who have an interest in the land, "What's more valuable to you, the food or the housing that could be produced here?" The answer comes back in the different prices offered by the providers of food and housing who serve as spokesmen for their customers, the consumers of food and housing. If farmers are willing to pay more than developers, that is a very good indication that the public values another forty acres worth of food production more than another forty acres worth of housing in that location. The converse is also true. The different prices offered reflect the judgments of informed people at every stage of the supply

²⁵If it is thought that environmental groups may not have the resources to effectively bid on such parcels, it should be pointed out that the larger environmental advocacy organizations in this country have combined annual revenues of over \$1 billion. The annual revenues of the Nature Conservancy alone are well over \$300 million. These resources presumably reflect the value that contributors to environmental groups place on their activities. See Jonathan Adler, *Environmentalism at the Crossroads: Green Activism in America* (Washington, D.C.: Capital Research Center, 1995).

chain, and every consumer and potential consumer whose willingness to pay influences the market price.

In short, when it comes to being *smart* in the sense of well informed, market-based resource planning by individual property owners is brilliant. It takes account of the values of everyone in the entire economic system who has an interest, direct or indirect, in the good in question. It channels resources toward uses for which they are demonstrably most valuable, as judged by people's actual willingness to pay.

As economists have long argued, there is no better method for determining the highest valued use of a resource than the market process. Even the most benevolent and disinterested planning board could not do remotely as well. But of course, the whole reason for policies such as "smart growth," which take resources out of the market process, is to avoid devoting them to their highest and best use as judged by the general public. Central planning boards are not intended to act in a disinterested manner. Their only conceivable purpose is to *override* the values of the general public as indicated in their willingness to pay, and privilege some other values favored by special interests. While "smart growth" is a terrible means of deciding the highest and best use of land, it is an excellent means of imposing the values of the anti-sprawl interest group on the rest of society.

C. Transportation: Planning Failures and Market Options

What about transportation? "Smart growth" proponents advocate more mass transit and sharply less road building. Would such a policy accommodate the various and conflicting priorities of the extended community? What proportion of our transportation should be by road, and what proportion should be mass transit? How should that decision be made?

The anti-sprawl activists have a legitimate complaint about some new road construction: it is true that over-zealous road building can promote uneconomical development when it does not require the developers to pay the extra costs they impose on others. Take the case of a new development in an outlying area which requires the old two-lane country roads of the area to be expanded to four-lane highways. Suppose taxes on everyone in the county or state pay for that road expansion, and also for the new roads in the development. In such a case, it might well be that the development attracts enough residents to turn a profit *only* because the residents don't have to pay the full cost of the roads (and other infrastructure) they use — all county taxpayers are, in effect, forced to subsidize the new residents. Absent taxes on non-residents, then, the development would not have been built at all (assuming the developer correctly anticipated the loss he would take). That kind of development *is* undesirable. It uses resources in a way for which people are not willing pay the full cost. Of course, errors may often occur in the other direction: sometimes, undoubtedly, roads do not get built that would be consistent with people's actual priorities, even when all costs are considered.

But note that the cause of the difficulty is central planning. "The roads are government-owned monopolies, financed by taxation. Driving takes place in a non-market, i.e., socialized, setting."²⁶ The central planners of road construction face the knowledge problem — they cannot know where roads and developments should and should not be built.²⁷ The solution to these kinds of problems is certainly not more central planning as advocated in "smart growth." Central planning is the source of these knowledge problems! On the contrary, decisions about where (and if) to build particular roads and mass transit systems — like decisions about land-use — are best left to the market process, and for exactly the same reasons. In its most robust form, that would mean privatizing roads. As transportation economist Daniel Klein has noted, "with modern technology that allows for low-cost monitoring of road usage and individualized pricing, this is a feasible proposition that is already being implemented in some states."²⁸ Where there are no tax subsidies, entrepreneur-developers must somehow see that the new residents pay not only for their houses, but also for the new roads — or transit systems — they will use. The residents' willingness to pay justifies the developments.

Short of full privatization, public policy should make use of market-like arrangements that give developers and road users the kinds of incentives that would exist in a true market. For example, road construction in and to new developments should not be subsidized. Even when a local government plans to own and operate the roads in and to a new development, the developers should be required to pay the full cost of the roads' construction before turning them over to the local government. That way, the cost of the roads will be reflected in the prices of the new houses. Indeed, these are common practices in most jurisdictions. Similarly, governments should charge for the use of major roads according to their congestion. Electronic technology exists to make toll payment simple, and to vary pricing so that motorists must pay more when roads are crowded. Such a policy will make commuters to outlying areas bear more of the cost of living a long way from where they work.

As for mass transit, the data show it to be a bad choice in almost all settings if we want to accommodate people's real priorities. Of course, in any particular community, the question of whether or not to build mass transit should be subject to the market test — will people *voluntarily* pay for it at a price high enough to cover its costs? There may be some communities

²⁶ Cordato, *op. cit.*, p. 2.

²⁷For an excellent discussion of the knowledge problem for transportation planning, see Daniel B. Klein, "Planning and the Two Coordinations, With Illustrations in Urban Transit," *Planning and Markets*, 1998, Volume 1, Number 1, accessed at <http://www.pam.usc.edu/volume1/-v1i1a1s1.html>.

²⁸*Op. cit.* For excellent discussions of how privatization is currently being implemented, see Gordon J. Fielding and Daniel B. Klein, 1993, "How to Franchise Highways," *Journal of Transportation Economics and Policy*, 1993, Vol. XXVII No. 2, pp. 113-130; Gabriel Roth, *Roads in a Market Economy* (Brookfield, Vermont: Ashgate Publishing 1996); and Peter Samuel, "Highway Aggravation: The Case for Privatizing the Highways," *Policy Analysis* No. 231, Cato Institute, June 27, 1995.

in which they would. In the absence of the market process, we cannot tell how many. The data indicate, however, that there are few. The preference of "smart growth" advocates for mass transit is not shared by the vast majority of the population. As previously noted, people enjoy the autonomy, convenience and privacy of their own cars. Our preference for cars over mass transit is so great that the road-use charges we pay as we drive (gas taxes and tolls) pay for roads easily, but the corresponding fares for mass transit do not begin to pay for its costs. That is, people choose to drive in such numbers that their gasoline taxes cover substantially more than the full cost of building and maintaining roads.²⁹ By contrast, *nowhere in the country do mass transit fares cover even operating costs, let alone capital costs*³⁰ (which are staggering in the case of the rail transit preferred by "smart growth" advocates).

Conclusion

Ultimately, "smart growth" is paternalistic public policy meant to substitute the values of a particular elite for those held by the individual property owners in the community. The problems of suburban sprawl that "smart growth" addresses turn out not to be problems after all, but rather a reflection of the decisions made by many people who like the amenities of suburbia. "Smart growth" advocates offer no rationale as to why their values should be preferred over the values of those who like suburbia. They simply assert their superiority as a justification for imposing those values on others. From an economic perspective, "smart growth" has all of the characteristics of bureaucratic central planning. Like all such schemes, it is undermined by the knowledge problem, the inability of planners to learn all they need to know in order to plan successfully. Accordingly, "smart growth" cannot possibly determine land-use efficiently. Instead of the bureaucratic planning of "smart growth", policy makers should defend private property rights and the freedom of owners to plan their own lives and to buy and sell as they wish. The consequence will be truly intelligent allocation of land through the market process and, more importantly to a free society, the expansion of individual liberty.

²⁹See Kenneth Greene, "Defending Automobility," *Policy Study* No. 198, Reason Foundation, 1995.

³⁰Lowrey and Jordan, *op. cit.*, p. 12.

ABOUT IRET

IRET was founded in 1977 as a 501(c)(3) public policy research organization dedicated to the belief that constructive, free-market economic policies are essential for the nation's economic progress. To this end, IRET conducts research and analysis of the economic effects of tax, budget, and regulatory public policy initiatives. IRET is a leader in offering guidance to policy makers regarding fundamental tax reform that would eliminate the bias against saving and investment in the current tax system, including elimination of the estate tax, taxation of capital gains, and the double taxation of corporate income. IRET is also researching ways to replace Social Security with personal saving for retirement.

IRET has a reputation as a no nonsense resource for policy makers and opinion leaders. IRET relies on contributions from individuals, foundations, and corporations to perform its work. It accepts no government funding. IRET is the leading public policy institute in Washington focusing realistically on the growth aspects and economic consequences of federal policy changes.

IRET's resident and contributing economists prepare books, studies, bulletins, and Congressional advisories for publication and distribution to the Congress, the media, and the public. IRET scholars testify at Congressional hearings and consult with Members of Congress on legislation and economic issues, write opinion pieces for journals and newspapers, make radio and television appearances, and speak at conferences on economics and public policy.

IRET's late founder, Norman B. Ture, was a distinguished tax advisor to Congress and served as Under Secretary of the Treasury for Economic Affairs in the Reagan Administration. Dr. Ture played a central role in the development of the Economic Recovery Tax Act of 1981. IRET's current President and Executive Director is Stephen J. Entin. Mr. Entin is a recognized expert on taxation and Social Security. He was Deputy Assistant Secretary for Economic Policy at the Treasury Department in the Reagan Administration, and was instrumental in the development of the 1981 tax cuts, in particular, the "tax indexing" provision that keeps tax rates from rising due to inflation. Mr. Entin represented the Treasury Department in the preparation of the Annual Reports of the Board of Trustees of the Social Security System, and conducted research into the long run outlook for the system. He advised the National Commission on Economic Growth and Tax Reform (the Kemp Commission), assisted in the drafting of the Commission's report, and was the author of several of its support documents. Prior to joining Treasury, Mr. Entin was a staff economist with the Joint Economic Committee of the Congress, where he developed legislation for tax rate reduction (the Kemp-Roth bill) and incentives to encourage saving. Mr. Entin is a graduate of Dartmouth College and received his graduate training in economics at the University of Chicago.