

Market-Oriented Growth Management: Out of the Smart Growth Abyss

BY SAMUEL R. STALEY, PH.D.

Smart Growth is the newest attempt to curb so-called suburban sprawl. Where traditional suburbs separate commercial and residential uses, are low-density, and depend on the automobile, Smart Growth proposes higher densities, mixed uses, and access to mass transit.

Smart Growth advocates face a number of daunting challenges, not the least of which is gaining popular acceptance for their principles. Developers have long lists of projects rejected by local planning boards and city councils that attempted to implement innovative site design, whether experimenting with mixed uses or creating an aesthetic of more open space in traditional suburbs (coving). Indeed, even ultra liberal Berkeley, California rejected a comprehensive plan recommendation that would have increased density.

Smart Growth proposals almost always advocate using highly prescriptive growth controls that limit housing choice, whether through growth boundaries or comprehensive planning. Many Smart Growth prescriptions discourage (or even ban) low-density residential development in favor of medium and high-density development. These outcomes are pursued despite the lack of consistent, empirical research that low-density development imposes substantial costs on society (see “Smart Growth, Markets and the Future of the City,” pp. 7–9, November 2000 Michigan Forward).

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There is a way out of this policy conundrum without resorting to choice-reducing growth controls embodied in many Smart Growth proposals. The keys are to: 1) recognize the fundamen-

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tal nature of the problems pushing sprawl to the forefront of policy debate, and 2) identify specific policies that address these problems. This approach has been broadly described as market-oriented growth management (MGM) because it places consumers at the center of land development decisions. In other words, public policy is developed based on maximizing the amount of housing and neighborhood choice available for families and households, not achieving a pre-ordained vision of what a city should like in an ideal world. Rather than restricting housing to satisfy the needs of the few, the power of real-estate markets is harnessed to increase housing and neighborhood choice for everyone.

MGM also recognizes the dynamic nature of the housing market. In 1948, William Levitt revolutionized housing production by using assembly-line production techniques to build thousands of new homes on then rural Long Island. He dramatically reduced the cost of single-family housing in the process, offering his first home for just \$7,500 (25 percent lower than the construction industry’s conventional wisdom). The original Levittowners moved into four-room cape cods with a single car garage on a quarter acre lot (or less). Now, in most Midwestern suburbs, Levittown-

type housing would be considered tantamount to slums. The average new home now has more than 2,000 square feet, sits on a lot of a quarter acre or more, but has access to even more public open space.

Most importantly, rather than relying on abstract ideas about urban form, MGM gives the private market the ability to innovate, try new products, and develop housing designs to meet market niches. When implemented successfully, MGM strategies are more closely aligned to the costs of providing public services with the revenues they generate.

What are MGM strategies? Space does not permit a full inventory—more than three dozen have been identified by policy analysts at Reason Public Policy Institute—but the following discussion describes a few to provide a glimpse at what can be done.

Open Space and Farmland Preservation

In many Midwestern states, and Michigan in particular, the growth control debate centers on farmland preservation. In most cases, however, support for farmland preservation is not support for farming. Rather, it is support for open space. Local residents, often new suburban residents, fear the fields and

forests next to their house will be converted to new tract housing. Ironically, this pattern of development is often encouraged by subdivision regulations that adopt prescriptive zoning and performance standards. Rather than letting developers experiment with densities, site layout, and new road and sewer design, local subdivision regulations dictate densities and patterns (e.g., half-acre minimum lot sizes). In addition, local governments often subsidize key infrastructure (e.g., roads, sewer, and water) by using general revenue funds to finance extensions to new developments. Oddly enough, the solution is to deregulate local property markets further and adopt a more businesslike approach to providing public services.

Local public policy options include:

- Creating overlay zoning districts. Rather than revamp the entire zoning code, planning boards and city councils can adopt special districts that subject innovative site designs such as cluster housing, neotraditional development, or coving to administrative review. Many cities already include versions of this strategy when they implement mixed-use districts for downtowns or allow Planned Unit Developments (PUDs). PUDs, in particular, give developers more options over site design, but the approval procedure is still subject to legislative review and lends itself to micro-managing land development. Several cities, including Barberton, Ohio, have developed overlay-zoning districts to accommodate neotraditional town development.
- Adopting nuisance-based development regulations. Objections to higher density and mixed-use development are often based on abstract concerns about neighborhood impacts. Refocusing planning and site-plan review to focus on potential nuisances created by development would allow planners and public officials to focus on tangible spillover impacts such as stormwater runoff, increased traffic, and unique environmental impacts. Once mitigated, objections to new forms of development, including higher density and mixed uses, would lessen. In already built-up portions of suburban areas, projects where nuisances are mitigated or eliminated could be given administrative approval. This



approach allows land to be developed based on market-driven demand for density and land use, rather than untried and untested abstractions about urban design.

- Purchasing development rights to open space. For unique wildlife areas, sensitive environmental lands, and preserving strategic parcels of open space, communities can establish private land trusts to purchase development rights to vacant land from private landowners. Landowners can also donate development rights or dedicate open space easements on their property (avoiding the transfer of the property right). Some communities, including Boulder County, Colorado, are experimenting with transfer of development rights (TDR) programs. TDRs allow landowners or private developers to build at higher densities in some areas if they let other land remain as open space.

Even with these kinds of reforms, however, farmland preservation on a large scale ultimately depends on a healthy agricultural community on a statewide basis. Farmland conversion often reflects the willingness of homeowners to pay more money for the land on the urban fringe than agricultural production can economically justify. Rather than thwart this market process, policymakers should consider recognizing the value of converting land to new uses, including new homes for Michigan residents.

Transportation and Infrastructure

Efficient land use is only one aspect

of the debate over urban sprawl and growth management. Infrastructure and transportation issues also figure prominently as Michigan residents grow concerned about higher public spending for basic infrastructure and the impacts of higher traffic volumes in suburban areas. More importantly, perhaps, it fails to recognize a fundamental public-finance issue: the source of revenues used to pay for new spending. The mere fact a Ford Taurus is more expensive than a Ford Escort does not mean that Taurus' should not be built. As long as consumers are willing to pay enough money to cover the costs of building and marketing the Taurus, their benefits outweigh their costs for consumers and Ford will continue to build them.

Among the options available to local governments and transportation planning agencies are:

- Full-cost pricing for infrastructure. Many communities fail to fully cost their infrastructure for new development, unintentionally subsidizing new development. Often, local pricing for water and sewer service only covers operating costs. With full-cost pricing for public services—by incorporating debt service, maintenance, and capital costs through utility prices or by using a combination of tap-in and user fees—new development will “pay its way.” Local roads are often more difficult to price, but new developments should cover the costs of any additional roads or widening of existing roads based on the higher levels of use generated by the new development. (This could also be accomplished by dedicating revenues



to an infrastructure fund in the same way new development provides cash in lieu of land dedication for parks and open space.)

- Public planning for future infrastructure. Oddly enough, many communities do not adequately plan for future public infrastructure investment. By identifying road, water, and sewer corridors in advance of development, and purchasing the necessary easements and development rights (prior to actual facility investments), local communities and regional agencies can help direct future development in more compact patterns without micromanaging property development through comprehensive land-use planning. Randall G. Holcombe, an economist at Florida State University, notes that regional transportation agencies and local communities can identify multiple road corridors that give property owners and developers an indication of where future infrastructure investments will take place (either new roads or upgrades of existing capacity). If this information is provided well enough in advance, land developers can adapt their plans and development needs efficiently and effectively. This approach, of course, implies that local governments must take seriously the task of expanding road capacity to meet higher levels of demand for new development.
- Congestion pricing and tolls. Despite widespread concern about congestion, most highways and interstates are truly congested only at specific times of the day. Most road networks

suffer from a lack of capacity at specific times of the day, not a general lack of capacity. The key is to smooth out the demand for roads more rationally to minimize bottlenecks. The solution, ultimately, will use road pricing, or tolls, to give drivers incentives to use the roads at less congested times. Prices would be higher during heavily traveled times and lower during less traveled times. Technology has also virtually eliminated the need for tollbooths, a key congestion-inducing bottleneck on traditional toll roads. In Toronto, a boothless toll road has opened successfully using automobile-based electronic transponders to record use and bill drivers accordingly. This option also has the benefit of creating a more consistent and reliable revenue stream for future road maintenance and repair.

Conclusion

Smart Growth policies often have little tangible impact on problems that concern local citizens, substituting an ideology of city design for problem-specific public policy. For example, most Smart Growth proposals advocate urban design and wider use of mass transit to solve traffic congestion problems. Urban design, however, has a relatively small impact on transportation mode choice, and higher densities can potentially increase local traffic congestion by putting more cars in a smaller amount of land.

Market-Oriented Growth Management strategies, on the other hand, are targeted toward specific needs and problems. Concerns about new infrastructure investment are met with policies that di-

rectly tie revenues with the full cost of providing services. Congestion issues are addressed with strategies that expand highway capacity and require drivers to more rationally determine when the best times to use highways are. Concerns about open space are addressed by allowed markets to develop densities consistent with consumer demand, and private land trusts are used to protect open space and environmentally sensitive areas.

While this brief survey has neglected many other important issues in the Smart Growth debate (e.g., urban revitalization), it hopefully provides a glimpse at the broad range of policies available to policymakers and officials wishing to enhance housing and neighborhood diversity. ♦

Editor's Note: This article is the second in a two-part series on growth management. The first article appeared in the November 2000 issue of *Michigan Forward* and can be found on the Michigan Chamber's Web site at <http://www.michamber.com/miforwd/index.htm>.



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