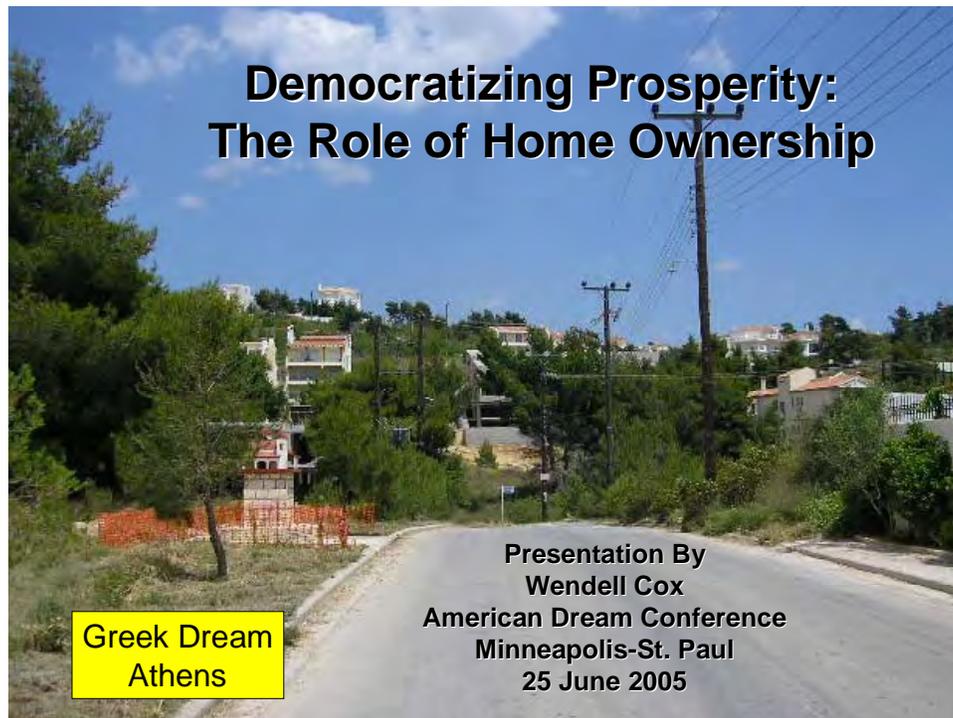


DEMOCRATIZING PROSPERITY: THE ROLE OF HOME OWNERSHIP



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INTRODUCTION

Figures 1-3 (Behind Text)

Automobile oriented suburbanization (pejoratively called “urban sprawl”) has emerged as the principal form of urban development in recent decades. Suburbanization has gained the near universal contempt of urban planners, who seek to limit its expansion principally through land rationing strategies. As these policy initiatives have proceeded, little attention has been paid to

the virtually inevitable negative impacts on homeownership and economic growth. That is the subject of this article.

Suburban World: There is a perception that automobile oriented suburbanization (pejoratively called “urban sprawl”) is limited to the United States. For example, the Lincoln Land Institute referred to urban sprawl as a “uniquely American phenomenon.”¹ It is true that United States has the more suburbanization than any other nation. But to consider urban sprawl as “uniquely American phenomenon” betrays a geographic myopia. Modern, automobile oriented suburbanization will be found around the world, wherever cars have become the principal mode of transport.

For decades, nearly all growth in high-income world urban areas has been suburban. Among metropolitan areas of more than 1,000,000 population in the high-income world, approximately 95 percent of urban growth has been in the suburbs. In the United States, Canada, Japan and Oceania (Australia and New Zealand), more than 90 percent of growth has been in the suburbs since 1965. In Western Europe, the share of growth in the suburbs has been even greater, at 114 percent, reflecting the continuing central city population losses.²

The Urban Planning War on the Suburbs: These trends offend many, especially in the urban planning profession. The result is a war on the suburbs. The assault is carried out using impressions, myths, half-truths and outright error. For example:

The anti-suburbanites claim that urbanization is consuming farmland. In fact, there is less farmland today because less is needed, due to improved agricultural productivity. All of the new urbanization has taken up an amount equal to only three percent of the 1950 farmland. The total farmland reduction has been much greater, equal to the land area of Texas and Oklahoma combined. In fact, the human footprint, which is composed of urban and agricultural land, is nearly one-fifth smaller today than one-half century ago.³

Anti-suburbanites are contemptuous toward cars. They would force people into mass transit systems that cannot be configured to even remotely provide the level of mobility on which modern prosperity depends, whether in the United States or Western Europe.⁴ They claim suburbanization makes traffic congestion and makes air pollution worse. To the contrary, suburbanization dilutes both traffic congestion and air pollution.⁵

Anti-suburbanites claim that government costs are higher in the suburbs. Again, the data indicates otherwise.⁶ They offer frivolous connections between obesity and

¹ Lincoln Institute of Land Policy, *Alternatives to Sprawl*, 1995, p. 7.

² www.demographia.com/db-highmetro.htm.

³ <http://www.demographia.com/db-usacultura2000.htm>.

⁴ <http://www.demographia.com/illusion.pdf>.

⁵ <http://www.fraserinstitute.ca/admin/books/files/UrbanGrowth&TorontoGreenbelt.pdf>

⁶ See Wendell Cox and Joshua Utt, *The Costs of Sprawl Revisited: What the Data Really Show*, 2004 (<http://www.heritage.org/Research/SmartGrowth/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=65819>) and Wendell Cox, *Growth, Economic Development and Government Structure in Pennsylvania*, Pennsylvania State Association of Township Supervisors, 2005, http://www.psats.org/local_gov_growth_report.pdf.

suburbanization, apparently oblivious to the bigger diets of lower quality that have become typical.⁷

This might appear to be a benign issue --- a simple choice between two visions of what an urban area should look like. However, the stakes are much higher. The price of a tidy urban area that is more pleasing to planners is less home ownership and less personal mobility, both of which mean less prosperity and greater poverty. This broader context of the choices being masked by currently fashionable urban planning doctrines must be addressed. It starts with economic history.

DEMOCRATIZING PROSPERITY

Figures 4-17

Economics: A History of Poverty: Suburbanization has been associated with much higher incomes and a substantial increase in affluence. It may seem that today's modern affluent society has been a reality for many generations. But, the unprecedented wealth of high-income nations, whether Canada, the United States, Japan or the countries of Western Europe is of relatively recent vintage.

Poverty dominates economic history. This may not seem obvious from a 2006 perspective. However, it was not long ago that the nation was considerably less affluent than today. Just before World War II, US annual incomes (inflation adjusted) were 75 percent lower than today. Per capita income was near the present poverty threshold. Western Europe lived near the present US poverty threshold, and Japan well below it.

However, since that time, the high-income world --- principally made up of the United States, Western Europe, Japan, Canada and Australia --- has enjoyed unprecedented and widely distributed economic growth.

Economic growth and prosperity are not inevitable. A high standard of living is relatively new to the world. The history of economics and the quality of life is largely a history of poverty.

This is illustrated by the work of economist Angus Maddison⁸ who estimated historical economic performance for the Organization for Economic Cooperation and Development (OECD). These inflation adjusted estimates show indicate that much of the world continues to live at levels below the 2000 poverty threshold in the United States. This includes the two most populous countries in the world, China and India. In Africa, nearly all nations had income per capita below the US poverty threshold, including the ancient rich nation of Egypt. In addition, most Latin American nations had incomes per capita below the US poverty threshold. But the history of poverty is not confined to Asia, Africa and Latin America. During the 19th century and into the early 20th century, much of the population of the now high-income world was in poverty.

⁷ <http://www.heritage.org/Research/SmartGrowth/wm343.cfm>.

⁸ Angus Maddison, *The World Economy: Historical Statistics*, Paris: Organization for Economic Cooperation and Development, 2003.

But strong economic growth has not been universal. Less than 15 percent of the world's population lives in high-income nations, while 85 percent live in middle-income and lower-income nations. Per capita economic growth since World War II stagnated in Asia and Latin America, at less than 20 percent, and at less than 10 percent in the former USSR and Africa.

A high standard of living cannot be achieved without a strong economy. Economics matters a great deal.

The Rise of High Income Economies: Prosperity is well on the way to being democratized in the high-income economies. The overwhelming majority of households in the high-income world live well. At the same time, the democratized economies produce enough income to provide, by world standards, comparatively generous levels of government financial assistance to low-income households.

The democratization of prosperity is different from socialization of prosperity. In fact, socialist economies produced little no prosperity to democratize, which is one reason that they have largely been consigned to history. Around the time of the Soviet Union's demise, Mikhail Gorbachev noted that wealth must be created before it is redistributed. One of the most important legacies of his friend Ronald Reagan was to illustrate, in simple terms, how people have considerably less incentive to create wealth that they know will be taxed away.

Democratization of prosperity requires equality of economic opportunity, regardless of economic, ethnic, family or hereditary status. At the same time, the democratization of prosperity is a continuing process. Even in high-income countries, it has not yet been fully achieved. But the extent to which prosperity has been democratized in high-income nations is unprecedented in history.

Virtually all economies, high, middle and low-income, have their rich. Luxury condominiums can be found on New York's upper east side and adjacent to the poverty of the Rocinda favela in Rio de Janeiro. Economic stagnation will reduce the ranks of the rich far less than it will expand the ranks of the poor.

What separates high-income economies from their middle and low-income counterparts is the extent of poverty. Virtually all economies have poverty, but high-income economies have much less. Where prosperity has been democratized, there is much less poverty and many more people live a comparatively comfortable life. The principal beneficiaries of democratized prosperity are not the rich --- who prosper whatever the economic system, but rather the hundreds of millions who would otherwise be poor.

How Prosperity has been Democratized: A number of factors contributed to the democratization of prosperity.

Rule of Law, Free Markets and Economic Growth: One of the most important requirements is the comparatively liberal economic markets that have developed and operate in the high-income world. This relationship emerges strongly from reports by the

Fraser Institute and the Heritage Foundation.⁹ These arrangements allow human ingenuity to create the economic growth that increases the “size of the economic pie.” There is no other way to materially or sustainably reduce poverty.

The Great Migration: Rural to Urban: For decades, people have been moving out of rural areas, especially to larger urban areas where larger. This has been the principal source of suburban growth, rather than the reduction in core populations so often cited by analysts. This “great migration” is now moving to middle and low-income nations, some of which remain considerably more rural than urban (such as China and India).

Urban areas are magnets of opportunity. In recent decades, urban areas have accounted for most overall economic growth, which has made them even more attractive to residents of small urban and rural areas. At the same time, technological advances in agriculture have substantially reduced labor requirements, which hastened migration to urban areas. No nation has achieved modern high-income status without a major movement of its population from small towns and rural areas to larger urban areas.

Nearly all population growth in the United States has been in urban areas since World War II. Since 1950, nearly 130,000,000 people have been added to urban areas, compared to only 2,000,000 in rural areas.¹⁰ A major factor was the exodus of African-Americans from the rural South to metropolitan areas principally in the Northeast, Midwest and California.

Commercial Growth: Employment has expanded substantially since World War II. In the United States, employment rose at a rate more than 1.5 times that of the population from 1950 to 2000. Moreover, the nature of the new commercial development was much different. Large commercial buildings and factories became more horizontal, often spread out (sprawling) in single-story configurations. This generally made commercial operations more efficient, lowering product prices for consumers. The more horizontal structures required more land, which was available at much lower prices than in the core or even the inner suburbs.

Data is available for the Paris area, where the automobile oriented outer ring suburbs that have developed since 1950 have commercial development that occupies more than twice the land area per employee as in the inner ring mass transit oriented suburbs that largely developed from in what was the pre-automobile era in France between 1920 to 1950.¹¹

Retailing: William Lewis documents the importance of the home building industry to economic growth in his book, *The Power of Productivity*. Lewis concludes that the more successful and more affluent economies are characterized by more intense competition for consumer goods and services (“competitive intensity”), and less economic

⁹ James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report*, Vancouver, BC: Fraser Institute, 2004 and Marc A. Miles, Edwin J. Fuelner and Mary Anastasia O’Grady, *2005 Index of Economic Freedom*, Washington: Heritage Foundation, 2005.

¹⁰ Calculated from US Census data.

¹¹ <http://www.demographia.com/db-paris-commml.htm>.

regulation.¹² He attributes the failure of Western Europe and Japan to close the economic gap in recent decades with the United States on insufficient competitive intensity. He says that lightly regulated retailing and homebuilding (described later) are important reasons.

McKinsey also found the comparative freedom of retail development to be an important contributor to US economic performance. Again, the driving factor was land use regulation. The larger, lower cost retailers found it much more difficult to build stores in the United Kingdom, France, Germany and Japan. As a result, there is less retail competitive intensity, and households pay higher prices for their goods. Lewis notes that where markets include the most efficient competitors, competition is less intense and there is less economic growth.¹³

Personal Mobility: The automobile has played a pivotal role in democratizing prosperity. It has, according to Alan Pisarski, “democratized mobility.”¹⁴

Before the car, urban residents were dependent on walking and transit, which took longer. Much of the urban area was beyond practical reach for people by transit (public transport), because of fixed schedules, slow speeds, congestion on streetcar lines and transferring from one line to another to get anywhere but downtown. However, the car changed everything. The car made it possible to travel throughout the urban area far more quickly and less expensively than had been possible before. Before the car, transit limited where people could go and when they could go. The car liberated people to go where they wanted when they wanted. This democratization of mobility contributed substantially to the democratization of prosperity.

The car made it possible for shoppers to travel throughout the urban area for more merchandise and lower prices. No longer were they captive of the high-priced, limited inventory local retailers within the narrow range of walking or transit. Even today, whether in Western Europe or the United States, people in neighborhoods with few cars pay much more for purchases made locally.

The car was a principal facilitator of employment for women, who would have found their multiple purpose trips --- to drop off children at day car or for shopping on the way from work --- impractical by foot or transit.

Western Europeans have been abandoning transit for cars for decades despite gasoline prices near or above \$5.00 per gallon. At least 85 percent of urban travel in Western Europe is by car rather than transit.

¹² William W. Lewis, *The Power of Productivity: Wealth, Poverty, and the Threat to Global Stability*. Chicago, IL: University of Chicago Press, 2004.

¹³ Lewis, p. 13.

¹⁴ Alan E. Pisarski, *Cars, Women and Minorities: The Democratization of Mobility in America*, Washington: Competitive Enterprise Institute, 1999.

At the same time, an efficiently functioning highway system makes it possible for trucks to move freight more quickly, reducing consumer costs.

The Chinese appreciate the economic value of a highly mobile society. Already, China has more miles of freeways than any nation other than the United States. Its plans call for expansions that will nearly equal the length of the US system by 2010. Longer-term plans call for doubling the present US length.

However, the car's greatest contribution may have been to make it possible for more people to own their own homes and join and broadening economic mainstream.

THE ROLE OF HOMEOWNERSHIP

Figures 18-25

Home ownership is a principal mechanism for creating wealth, and is a principal mechanism for democratizing prosperity. There is a fundamental difference between purchasing a home and paying rent. By purchasing a home, a household adds to its wealth. Part of the monthly mortgage payment is used to reduce the amount owed and becomes a part of the owner's equity in the home. In contrast, all of the money paid to rent a home that the household does not own goes to the property owner. There is no potential equity for the renter in the rented home.

In the United States, the home owning households have a net worth more than 30 times greater than that of renters. Much of the net worth of middle-income households is in housing equity. A Federal Reserve Bank survey found that:¹⁵

House equity accounted for 65 percent of net worth among households with less than \$20,000 in annual income.

House equity accounted for more than 40 percent of net worth among households with \$20,000 to \$50,000 in annual income.

House equity accounted for approximately one-third of net worth among households with \$50,000 to \$100,000 in annual income.

Home ownership also makes communities more stable and cohesive. Robert C. Weaver, the first US Secretary of Housing and Urban Development said:

“Home ownership creates a pride of possession, engenders responsibility and stability.”¹⁶

¹⁵ Heritage Foundation Center for Data Analysis calculations from U.S. Federal Reserve Board, Survey of Consumer Finance, 1998 as cited in Wendell Cox and Ronald D. Utt, *Smart Growth, Housing Costs and Home Ownership*, Washington: Heritage Foundation, April 6, 2001.

¹⁶ As cited in Wendell Cox and Ronald D. Utt, *Smart Growth, Housing Costs and Home Ownership*, Washington: Heritage Foundation, April 6, 2001.

Home ownership broadens and deepens affluence. An economy is richer because of home ownership and more of its households participate in its mainstream. This recognition has been at the base of public policies intended to expand home ownership under national administrations of all political stripes, from Franklin D. Roosevelt to Ronald Reagan and from Margaret Thatcher to Tony Blair.

McKinsey's William Lewis found that home building industry in the United States to be significantly more productive than in Western Europe or Japan and that this is one of the principal reasons why US economic dominance has continued. The principal reason is that land use regulation is far less severe in the United States. More land can be legally purchased for development of housing. The larger plots of land allow greater standardization and lower costs. The lower costs and efficiencies of this structure make it possible for smaller companies to operate in the market, with the increased competition reducing prices. Similar industry and regulatory structures were found to produce American style productivity in the Netherlands and Australia.¹⁷

At the other end of the spectrum was Japan, with home building productivity 55 percent below the United States, the Netherlands and Australia. This is because of a regulatory system that discourages large scale housing subdivisions and an industry geared toward custom building and little standardization. If the Japanese built cars in the pre-Henry Ford way that local builders construct houses, Toyota and Honda would not be household names outside Japan.

THREATENING THE DREAM

Figures 26-29

Land Rationing: The most destructive anti-suburban policies would make the home building industry much less competitive by subjecting residential land development to rationing. Virtually all economists agree that rationing tends to raise prices.

The following land rationing strategies are advocated by anti-suburban interests, and have come into much wider use in recent years:

Densification policies, which includes urban growth boundaries, greenbelts, urban consolidation (the Australian term), urban service areas and other strategies that remove significant amounts of land from potential development and attempt to force building instead into already developed areas (infill). Paradoxically, suburban large lot zoning is also proposed by anti-suburbanites, in the hope that making land more scarce will force make it harder for people to settle in the suburbs.

Excessive Development Impact Fees: Some communities have imposed fees on the construction of new houses and apartments to recover purported costs to the community for schools, roads, sewers, water and other community services. Often these fees are considerably higher than justified.

¹⁷ The Australian research was completed before wide adoption of urban consolidation policies.

Mandated Amenities: Zoning regulations may require expensive and unnecessary amenities as a part of new house construction. These may range from sodded lawns to new urbanist (early 20th century) design requirements.

Anti-suburban have published what might be called “sun rises in the West” studies to prove that land rationing does not raise housing prices. A study by the Brookings Institution, lead by Dr. Arthur C. Nelson, has been frequently cited as to prove that house prices are not increased by anti-suburban policies. However, a close reading of the study renders a different conclusion. The Brookings team commented:

“The housing price effects of growth management policies depend heavily on how they are designed and implemented. If the policies tend to restrict land supplies then housing price increases are expected.”¹⁸

CONSEQUENCES

Figures 28-44

As the evidence below indicates, restricting land supplies, or rationing land does indeed raise housing prices.

Even leading New Urbanist architect Andres Duany admitted as much. In a message to an anti-suburban e-mail list he wrote:

“There is NO question that urban growth boundaries and that elaborate environmental studies and elaborate public processes increase the cost of housing by creating scarcity. (And don’t tell me otherwise, because I am not stupid, nor am I inexperienced, nor do I have underdeveloped powers of observation).”¹⁹

Research: University research supports the general contention that land use restrictions increase the price of housing. Edward Glaeser and Joseph Gyourko,²⁰ in work published by Harvard University, reported that the principal cause of differences in housing affordability between US metropolitan areas is zoning and land regulation. This is a particularly stark finding, since average house prices in US markets range from over \$600,000 in the San Francisco Bay area to under \$150,000 in a number of Midwestern and Southern metropolitan areas.²¹

Based upon their findings, Glaeser and Gyourko concluded that there was no national housing affordability crisis in a Federal Reserve Bank article.

¹⁸ Arthur C. Nelson, Rolf Pendall, Casey J. Dawkins and Gerrit J. Knaap, *The Link Between Growth Management and Housing Affordability: The Academic Evidence*, Washington: The Brookings Institution Center on Urban and Metropolitan Policy, February 2002, p. 24 (emphasis in original)

¹⁹ Email from Andres Duany to Congress of New Urbanism mailing list (CNU@LSV.UKY.EDU), Subject: Affordable Housing and New Urbanist Principles, July 15, 2004. Emphasis in original

²⁰ Edward L. Glaeser and Joseph Gyourko (2002). *The Impact of Zoning on Housing Affordability*, Cambridge, MA: Harvard Institute of Economic Research.

²¹ National Association of Realtors, www.realtor.org, 2nd quarter 2004.

America is not facing a nationwide affordable housing crisis. In most of the country, home prices appear to be fairly close to the physical costs of construction. In some of the country, home prices are even far below the physical costs of construction. Only in particular areas—especially New York City and California—do housing prices diverge substantially from the costs of new construction.²²

Nonetheless, there are a number of urban areas in which housing costs have escalated substantially. Most of these areas also have land rationing policies that have driven up housing prices by creating scarcity. A United States Department of Housing and Urban Development report refers to “misuse of smart growth:”

“A number of communities, however, have used smart growth rhetoric to justify restricting growth and limiting developable land supply, which lead to housing cost increases.”²³

The Reality: Current housing prices demonstrate the strong association between higher housing prices and land rationing. Generally, median house prices or values have been less than three times median household incomes. In recent years, there has been an unprecedented escalation of this housing price multiple, principally in areas engaging in the most stringent land rationing.

In the United States, the worst housing affordability is in Southern California, with the highest multiples in Los Angeles (10.1) and San Diego (10.0). Other California markets are also high. The San Francisco multiple is 7.8, while the Sacramento multiple is 5.6. Each of these multiples has risen rapidly in recent years, as land rationing has become more severe.²⁴

The extremely high housing multiples now evident in some urban areas have developed only in recent decades. This is illustrated by California, where the 1970 housing multiple was 20 percent higher than the national average. By 2004, California’s housing multiple was 1.25 times above the national average.²⁵ While the national housing multiple rose 34 percent, the California housing multiple rose 150 percent. The loss in housing affordability was greatest in Oregon, where land rationing policies have been required for decades by state law.

The same relationship is found in Canada, Australia and New Zealand. Sydney has the third worst housing multiple, following Los Angeles and San Diego, at 8.8. Housing has become so unaffordable in Sydney that the Governor of the Reserve Bank, Ian MacFarlane told a parliamentary committee young people would have to leave the Sydney area to go elsewhere, where “their life style is more affordable.”²⁶ Land rationing has led to substantial housing affordability losses in other urban areas in Australia and New Zealand.

²² <http://www.newyorkfed.org/research/epr/03v09n2/0306glae.pdf> 20041212 p35 journal

²³ United States Department of Housing and Urban Development, *Why Not in Our Backyard: Removing Barriers to Affordable Housing: An Update to the Report of the Advisory Commission on Regulatory Barriers to Affordable Housing*, Washington, 2005, p.5. <http://www.huduser.org/Publications/pdf/wnioc.pdf>, accessed March 7, 2005.

²⁴ *Demographia International Housing Affordability Ratings and Rankings* (<http://www.demographia.com/dhi-rank200502.htm>).

²⁵ Calculated from US Bureau of the Census data.

²⁶ <http://www.apf.gov.au/hansard/rep/commtee/R8516.pdf>.

Vancouver, with Canada's strongest land rationing policies, has that nation's worst housing affordability, with a multiple of 5.1.

At the same time, housing remains affordable in US metropolitan areas that have not implemented land rationing. In Atlanta, Dallas-Fort Worth and Houston, which are the first, third and fourth fastest growing large urban areas in the high-income world,²⁷ have extraordinary housing demand. Nonetheless, the housing multiples in Atlanta (2.6), Dallas-Fort Worth (2.6) and Houston (2.7) remain very competitive.

Land rationing policies, if comprehensively adopted, are likely to lead to a nation of renters. In the long run, the US homeownership rate of nearly 70 percent would decline toward 50 percent at the Portland, Oregon multiple, homeownership rates could be expected to fall toward 50 percent. At the higher California multiples, the home ownership rate could drop toward 20 percent.²⁸

Minority Homeownership: Even in the affluent economies, there is still room for democratizing prosperity. For example, in the United States, minority home ownership rates remain well below majority rates. The Hispanic and African-American home ownership rates are a full third less than the White-non-Hispanic homeownership rate. It is essential that minority homeownership rates be materially improved, ideally to equal the majority rate. This is more than an economic matter, as the recent minority disorders in France (and those in previous decades in the United States) illustrate. Young people do not burn businesses and cars in neighborhoods where they have an economic stake. Homeownership is a critical element in creating the social cohesion that results from the entry of all into the mainstream of economic life.

In the United States, more liberal housing markets are associated with greater prosperity for both minority populations and the nation as a whole. Matthew Kahn at Tufts University in Massachusetts found that more sprawling urban areas have higher rates of African-American home-ownership.²⁹ Moreover, in California, with its intense land regulation, a Hispanic research institute, the Tomas Rivera Foundation has found anti-suburban growth controls and excessive development impact fees to be a principal barrier to greater Hispanic home ownership.³⁰

PRESERVING THE DREAM

Figures 45-55

Living in the “Future Tense:” *New York Times* columnist David Brooks wrote about how Americans live in “the future tense” in his book *On Paradise Drive*. Living in the future tense involves always striving for and anticipating a better future. But this is not a uniquely American

²⁷ <http://www.demographia.com/db-econ-uaintl.htm>.

²⁸ Based upon an analysis of the distribution of income by households and an assumption that housing costs should average no more than 29 percent of income (a typical lending standard).

²⁹ Matthew E. Kahn, “Does Sprawl Reduce the Black/White Housing Consumption Gap?” *Housing Policy Debate*, Volume 12, Issue 1.

³⁰ Waldo Lopez-Aqueres, Joelle Skaga and Tadeusz Kugler (2002). *Housing California's Latino Population in the 21st Century: The Challenge Ahead*. Los Angeles, CA: The Tomas Rivera Policy Institute.

phenomenon. All people would live in the future tense, given the chance. It is just easier in the United States and other democracies in which the legal and regulatory structure allows people to pursue a better future, rather than rationing the future to a privileged minority.

The American Dream is also the Great Australian Dream, the Kiwi Dream and the European Dream. As former Secretary of Housing and Urban Development Jack Kemp noted, it has become the “universal dream.” And, there is every reason that it should be. Home ownership and mobility can and should be used to democratize prosperity around the globe.

Required: An Urban Planning Reformation: Assemblyman Ray Haynes of California once told me that the urban areas of that state actually worked much better before there was a state requirement for comprehensive urban planning. Until the 1970s, California built the roadways that were required, following a blueprint that was the vision of Governor Edmund G. (Pat) Brown.³¹ Since comprehensive planning was adopted, traffic congestion has become much worse, and housing is much less affordable. Before comprehensive planning, the state experienced its greatest growth, approximately 100 percent from 1950 to 1975, yet managed to more successfully handle its problems. From 1975 to 2000, growth was barely 50 percent.

It is legitimate to ask whether urban planning should follow the “command and control” model currently in vogue. People tend to make their own plans and do what they prefer to do. Government may tell people where they cannot live or where they cannot work. However, democratic governments cannot tell people where they *must* live or work.

Urban planning was not always as it is today. Pre-urban renewal planners were content to facilitate the growth that they expected and the travel patterns that would be preferred by the growing community. There was a time that planners even lived in the future tense.

German professor Thomas Sieverts objects to the current “in vogue” view that urban areas are not planned unless urban planners do the job. Rather, the modern urban area and its predecessors is the amalgamation of planning by the households and businesses in the area.³²

Urban planning should be restored as a facilitative, supportive discipline, stripping it of the inappropriate social engineering component. The role of urban planning is not to tell people what to do, but rather to assist them in pursuing their preferences. Figure \$\$\$ provides a vivid example. The wide, paved path is how planners intended for people to reach the suburban rail station in Evry, France. The less formal path across the grass is how people choose to get there.

None of this is intended to suggest that suburbanization or urban sprawl is inherently good. It is rather to reaffirm the truth that where people are allowed to pursue their preferences without unnecessary restrictions, the results tend to be superior. So long as this can be accomplished without “material threat to others and the community,” as the Lone Mountain Compact suggests, then there is no harm worthy of regulation.

³¹ His son, Jerry, did not share this optimism and popularized the term “era of limits” as governor two decades later.

³² Thomas Sieverts, *Cities without Cities: An Interpretation of the Zwischenstadt*, London, UK: Spon Press, 2003, p. vii.

*... absent a material threat to other individuals or the community, people should be allowed to live and work where and how they like.*³³

Rationing Land, Rationing Economic Growth, Rationing the Future: There are significant economic challenges on the horizon. Most high-income nations are facing significant funding shortfalls in pension and social welfare programs. At a minimum, greater economic growth is required if prosperity is to be further democratized. However, the land rationing policies that have become so fashionable are likely to result in lower rates of economic growth.

This is already evident from both the research and the experience. A paper by Raven Saks, published by the JFK School of Government at Harvard concluded:

“metropolitan areas with stringent development regulations generate less employment growth than expected given their industrial bases”³⁴

In the same vein, Australian Reserve Bank Governor MacFarland blamed part of Sydney’s recent anemic economic performance on high housing costs.³⁵

As is usual, the economic losses would “trickle down” to people with lower income, who will find their housing choices and mobility more restricted, along with a the less prosperous economy incapable of providing the subsidy assistance they would not need if destructive anti-suburban policies had not been implemented. Anti-suburbanism is a matter of values. To the anti-suburbanite, a tidy urban area is more important than one in which there is broad prosperity. The dreams of the anti-suburbanites can be achieved only by imposing lowering the standard of living for middle and lower income households. This was expressed by Lewis:

“Most people consider the ‘social objectives’ motivating zoning laws and small bus subsidies to be “good.” However we can’t have it both ways. These measures distort markets severely and limit overall productivity growth, slow overall economic growth and cause unemployment.”³⁶

Perhaps the ultimate accomplishment of the first world has been to democratize prosperity. Yet, the task is not complete. Many households remain outside the economic mainstream and many are unable to buy their first homes. The overwhelming consequence of containing urban areas is to extinguish opportunity. It is far too high a price.

³³ http://www.perc.org/publications/articles/lone_mountain_full.php, accessed February 28, 2005.

³⁴ http://www.jchs.harvard.edu/publications/markets/w04-10_saks.pdf.

³⁵ <http://www.apf.gov.au/hansard/reps/commtee/R8516.pdf>.

³⁶ Lewis, p. 14.

Democratizing Prosperity: The Role of Home Ownership

Greek Dream
Athens

Presentation By
Wendell Cox
American Dream Conference
Minneapolis-St. Paul
25 June 2005



A BROADER CONTEXT

**Home
Ownership
&
Land Use:**

**Future
of the
economy
and
the
quality
of
life**

OUTLINE



DEMOCRATIZING PROSPERITY



THE ROLE OF HOME OWNERSHIP



THREATENING THE DREAM



CONSEQUENCES



PRESERVING THE DREAM & PROSPERITY

Democratizing Prosperity



Swedish Dream
Stockholm

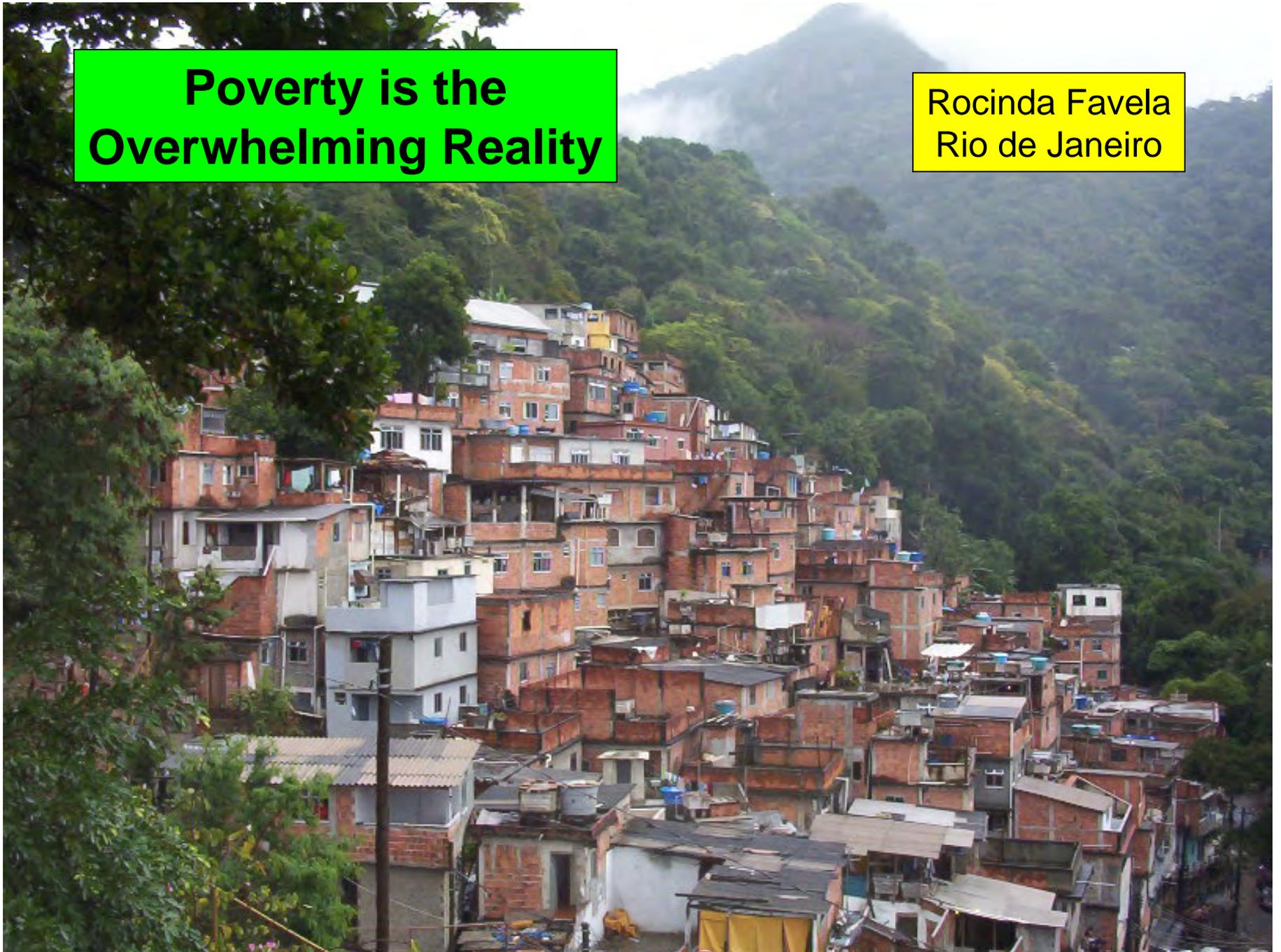
**All Societies
Have Their Rich**

Luxury Condos
Near
Rocinda Favela
Rio de Janeiro

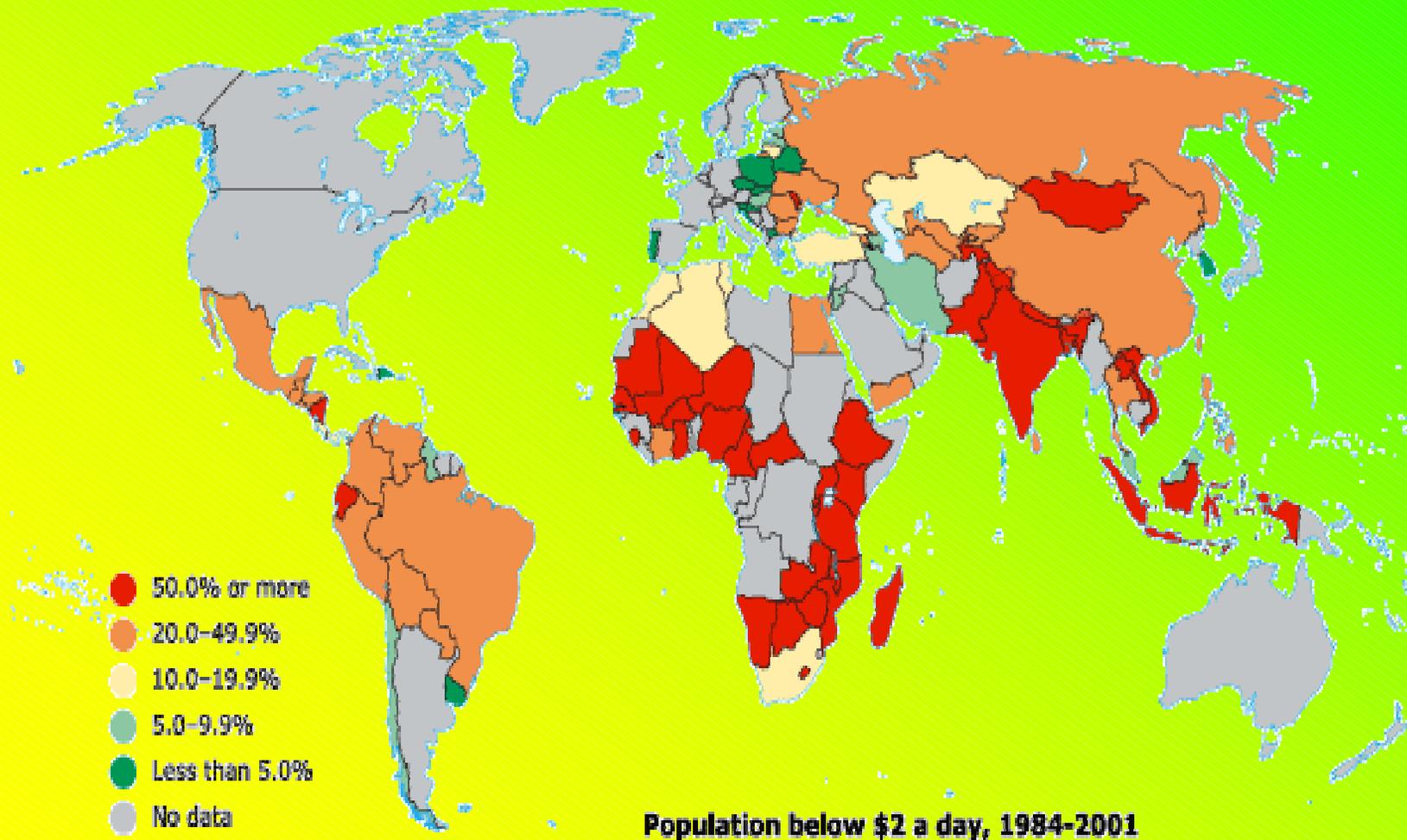


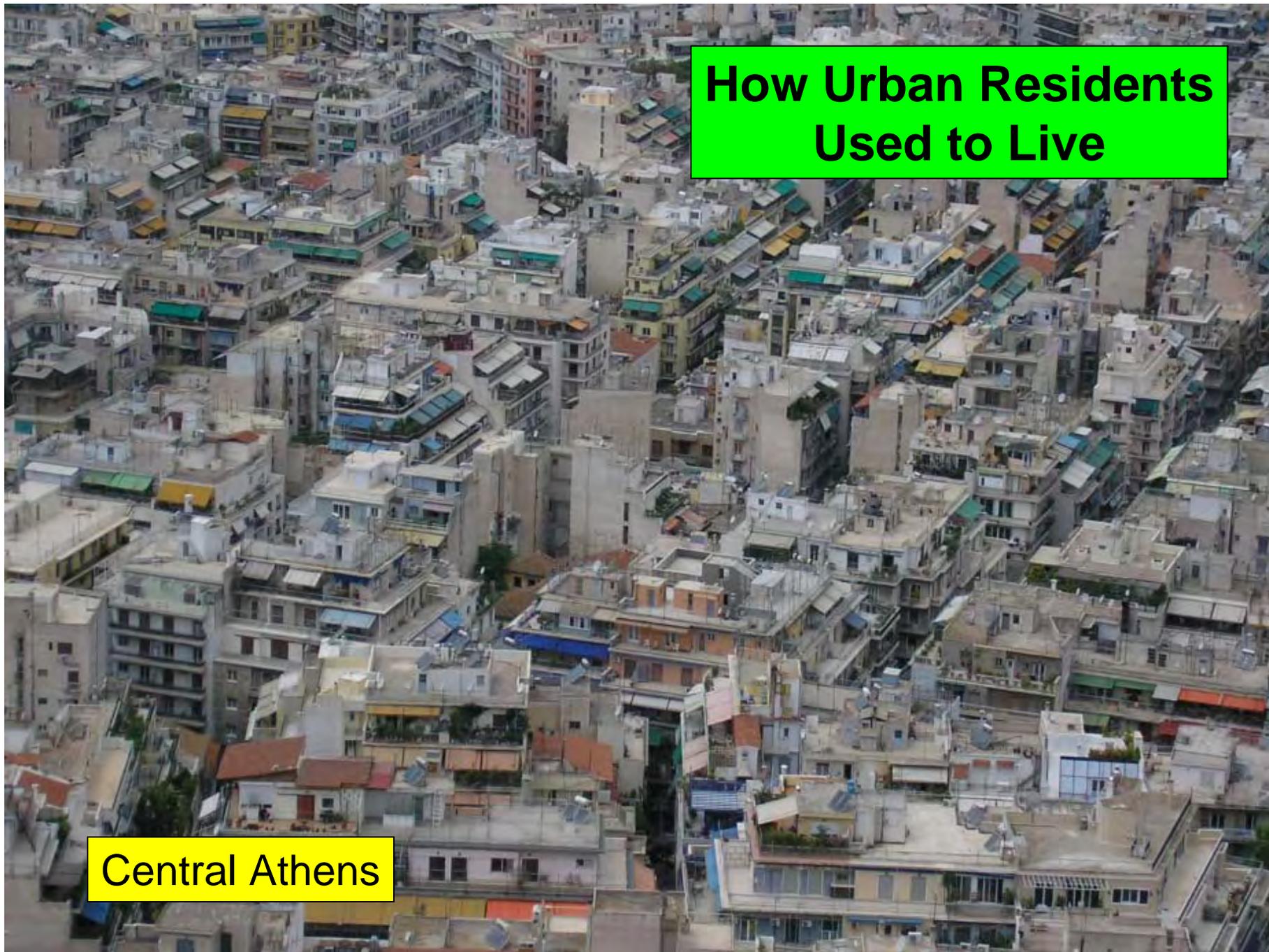
**Poverty is the
Overwhelming Reality**

Rocinda Favela
Rio de Janeiro



Different About High Income Economies? Democratization of Prosperity

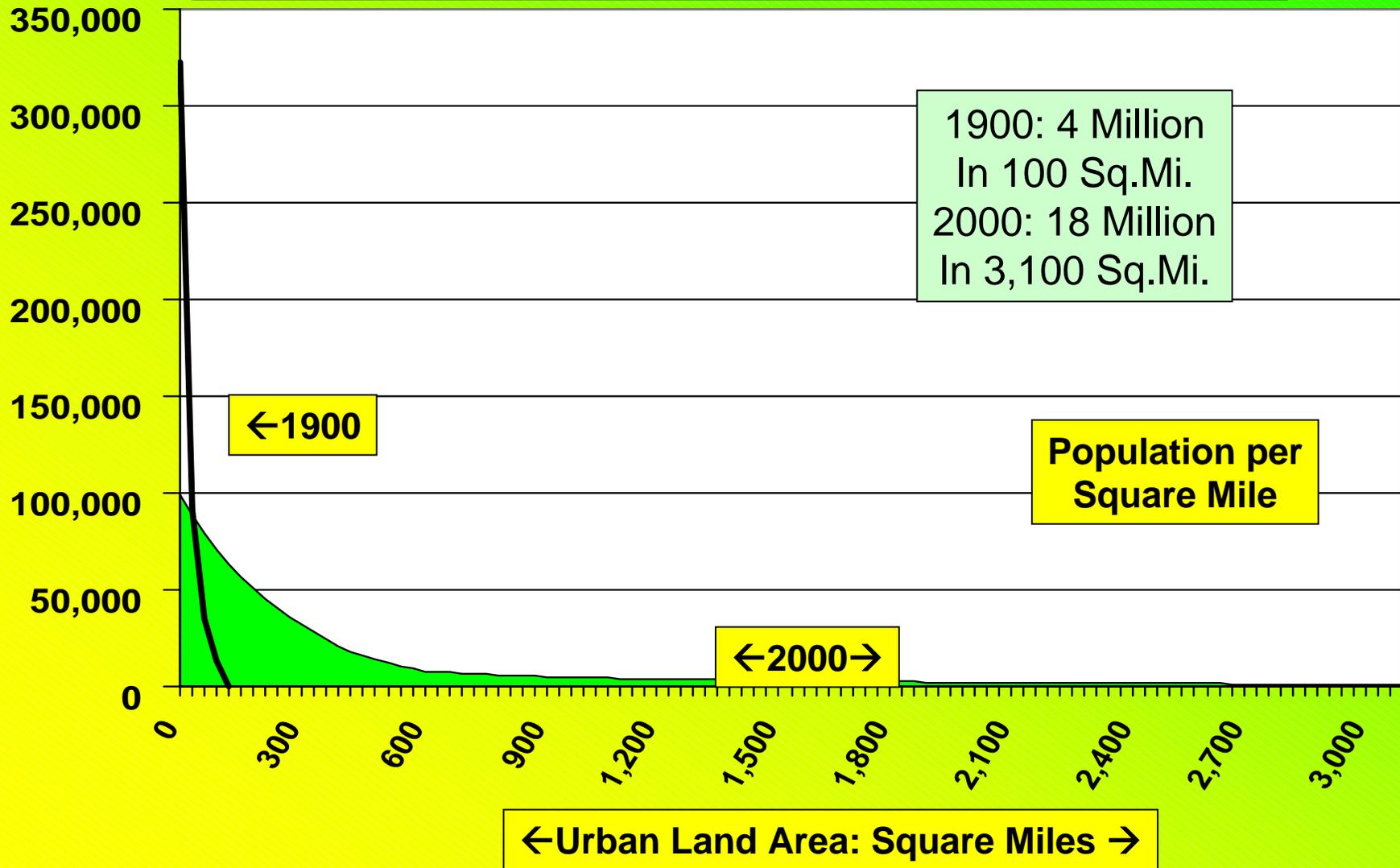




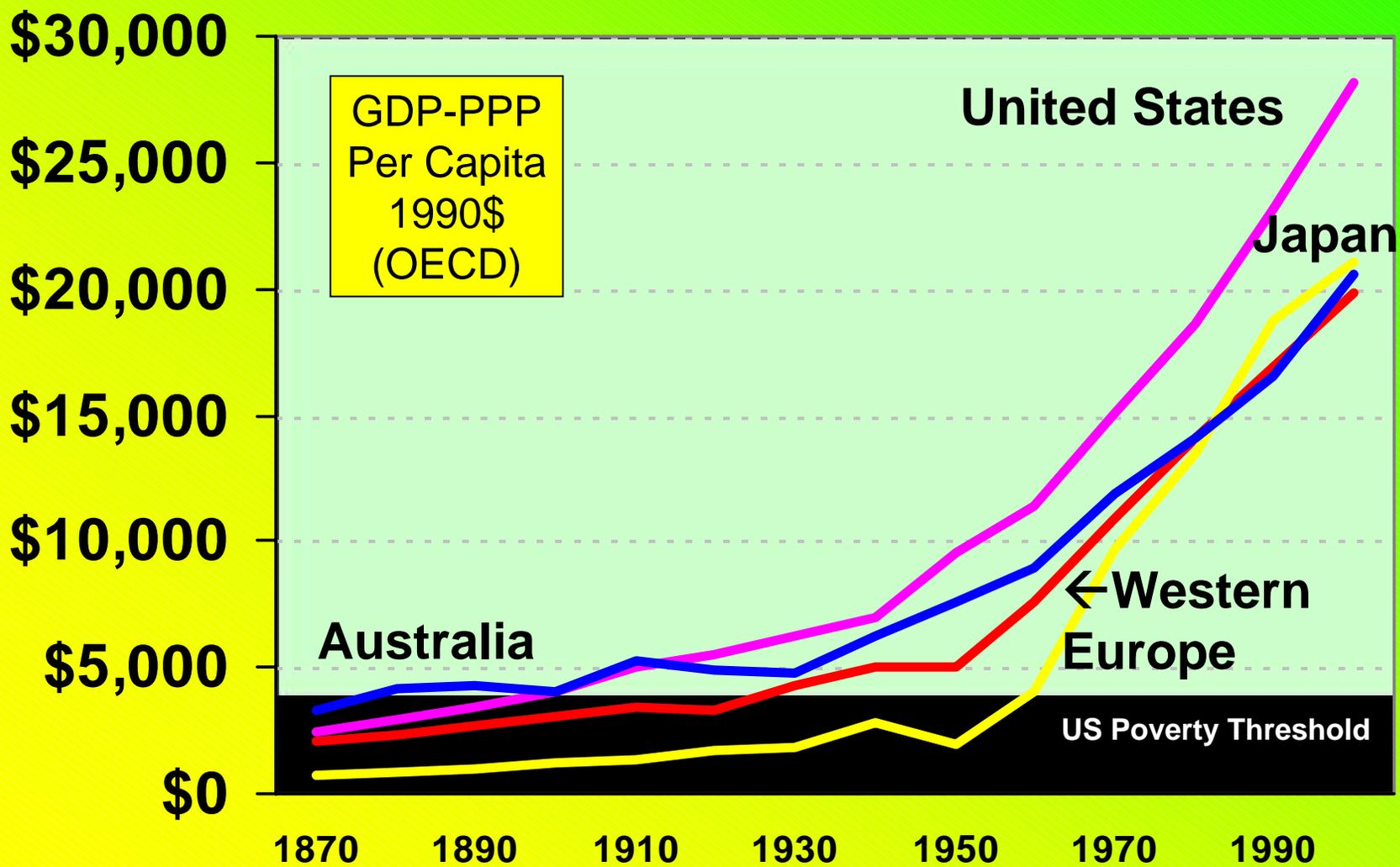
How Urban Residents Used to Live

Central Athens

Density Profile of New York Urban Area 1900 and 2000



History of the World is the History of Poverty





**Moving from
Rural to Urban
Areas**

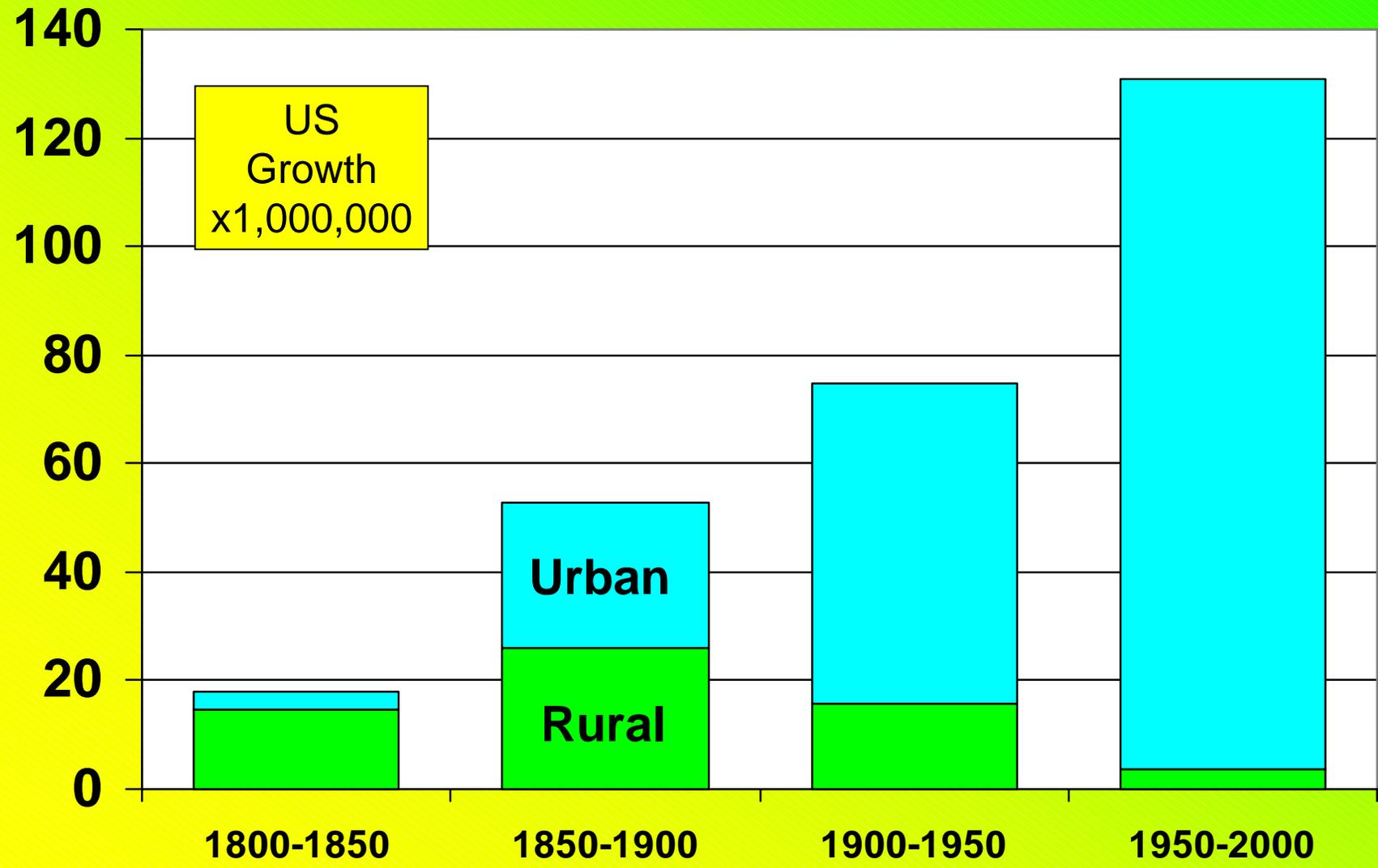
**Grundy County
Illinois**



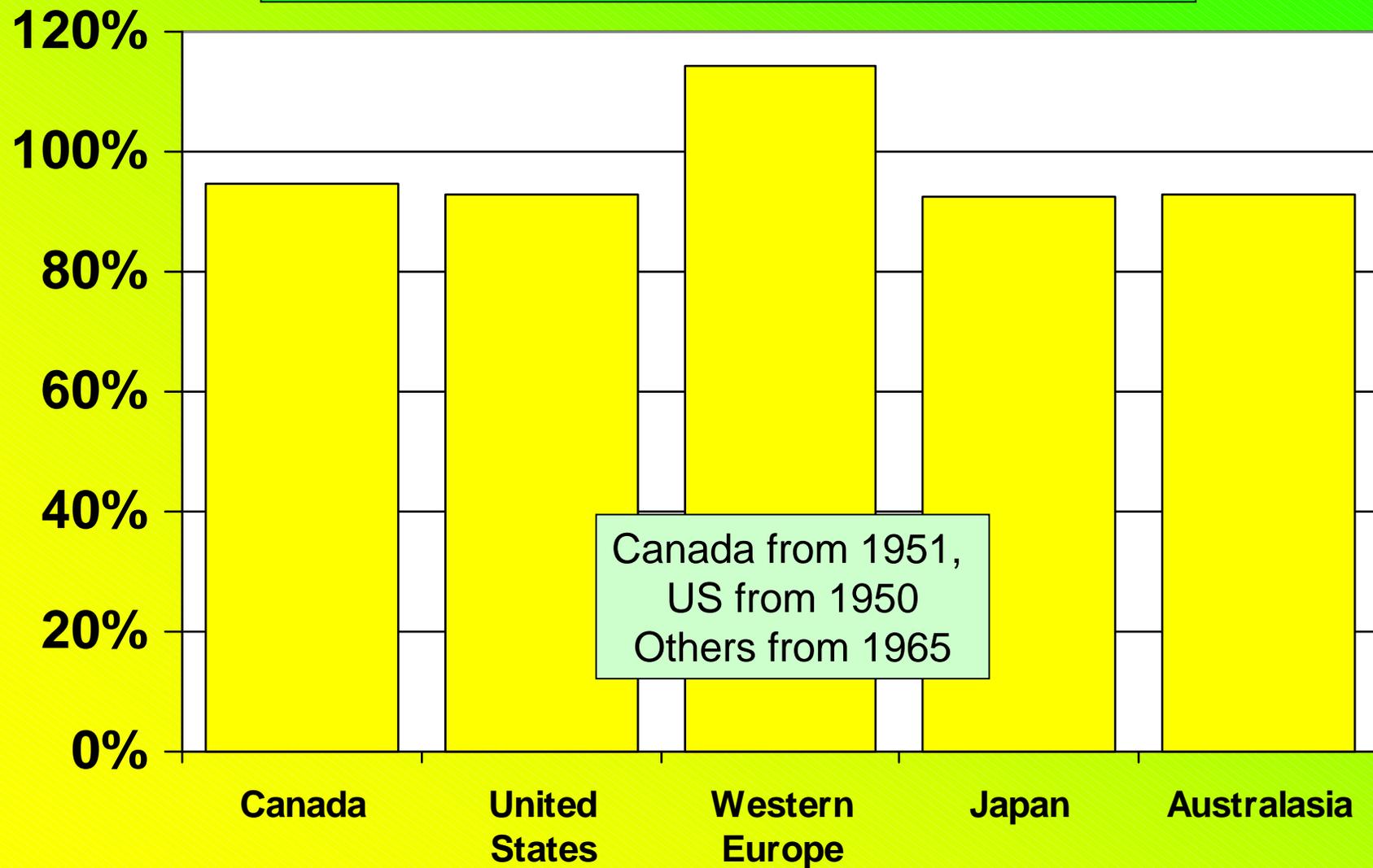
**History of Urban Growth
History of Sprawl**

**Australian Dream
Melbourne**

Democratization of Prosperity is Associated with Urban Growth



Democratization of Prosperity is Associated with Suburbanization





Milan



Toronto



Tokyo



Portland

MODERN “SPRAWL” = AUTO ORIENTED DEVELOPMENT

Merriam Webster: “the spreading of urban developments on undeveloped land near a city”

Sprawl is “suburbanization.”

Sprawl is “urban growth” – nearly all urban growth in the high-income world has been suburban in recent decades.

Sprawl =
Automobile oriented development
(especially in the US, Canada, Western Europe, Australia, Japan).

Latest Criticism of Modern Urban Growth SPRAWL DRIVES AWAY ECONOMIC GROWTH

Reality is the opposite....

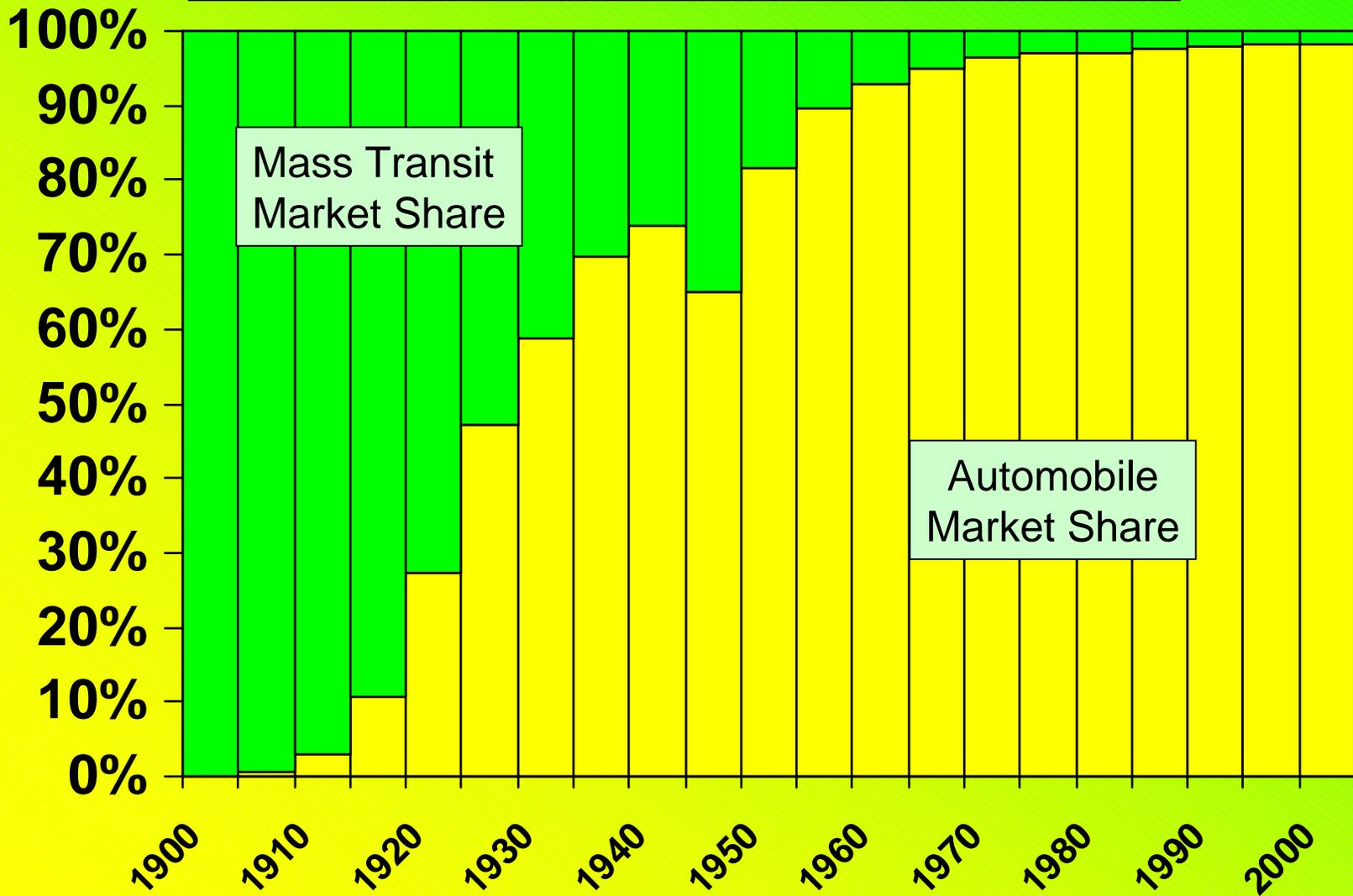
ATLANTA: Most sprawling major urban area in the high income world (lowest population density)

ATLANTA: Fastest growing major urban area in the high income world.



American Dream
Atlanta

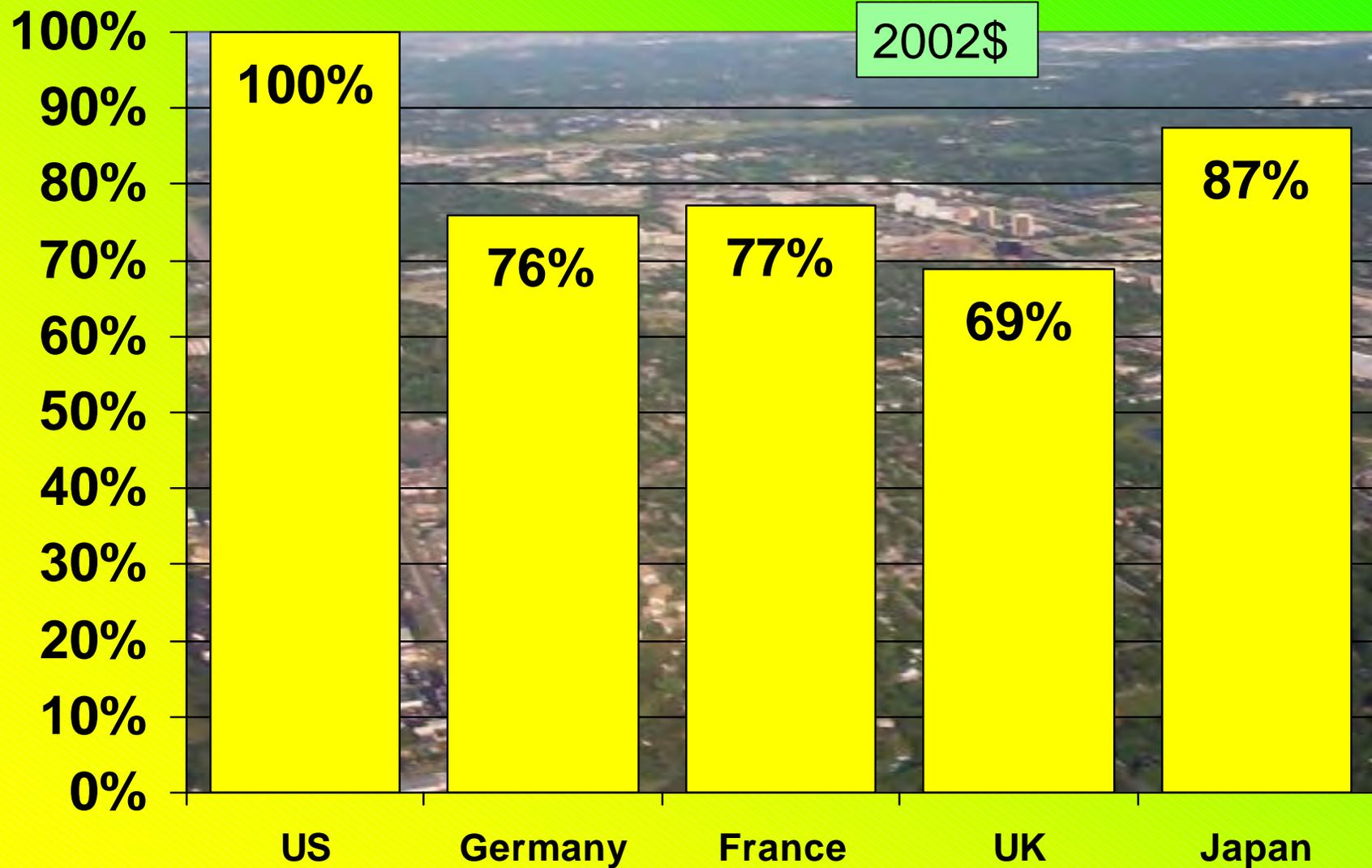
Democratization of Prosperity is Associated with Personal Mobility



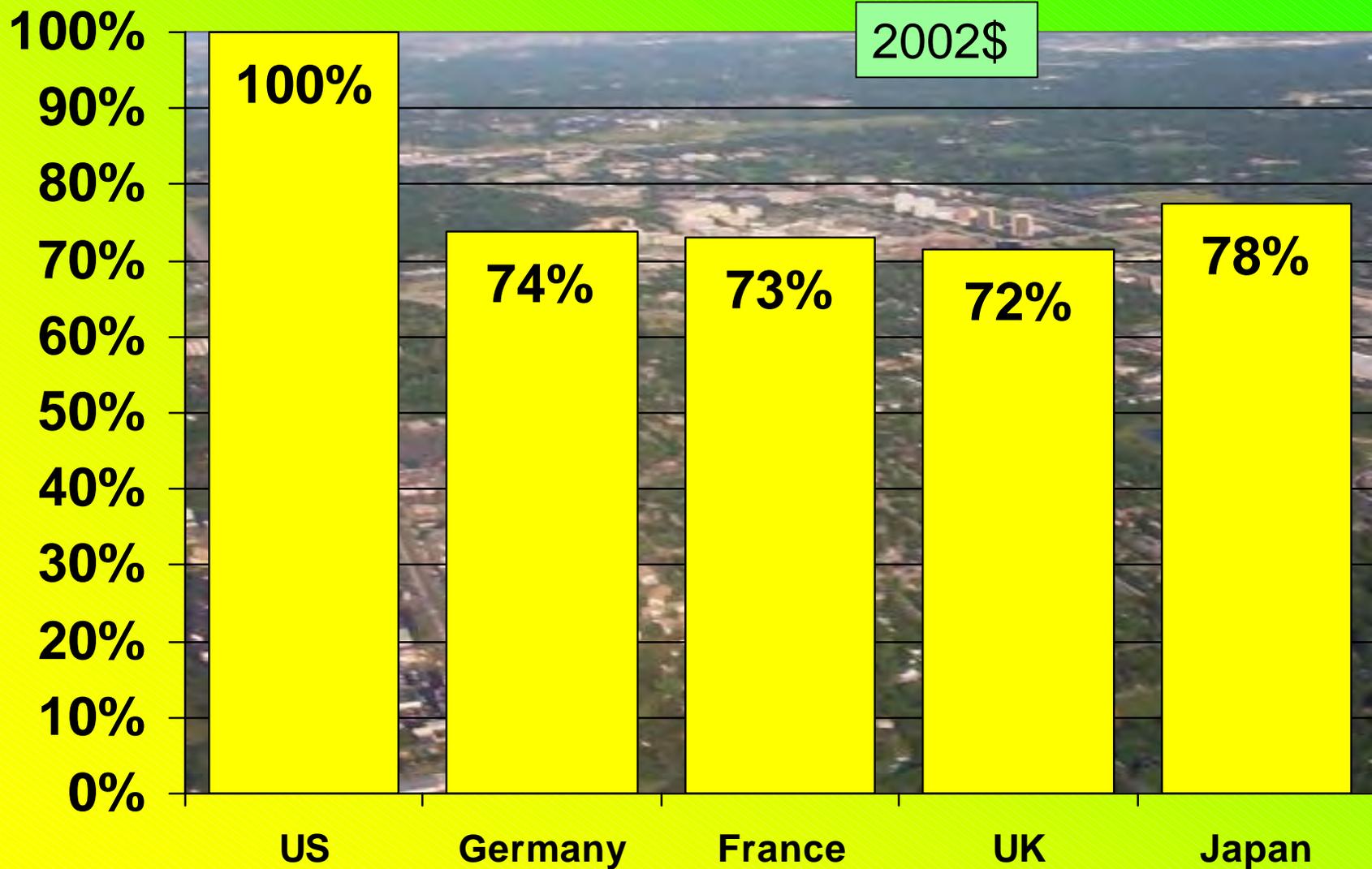
The Role of Home Ownership

Japanese Dream
Sapporo

GDP/Capita: 1992 (PPP)



GDP/Capita: 2002 (PPP)



THE POWER OF PRODUCTIVITY

WEALTH, POVERTY,
AND THE THREAT TO
GLOBAL STABILITY

WILLIAM W. LEWIS

**STRENGTH
OF THE
AMERICAN
ECONOMY**

**“Competitive
intensity”**

**Examples:
Less restrictive
land regulation**

Retailing

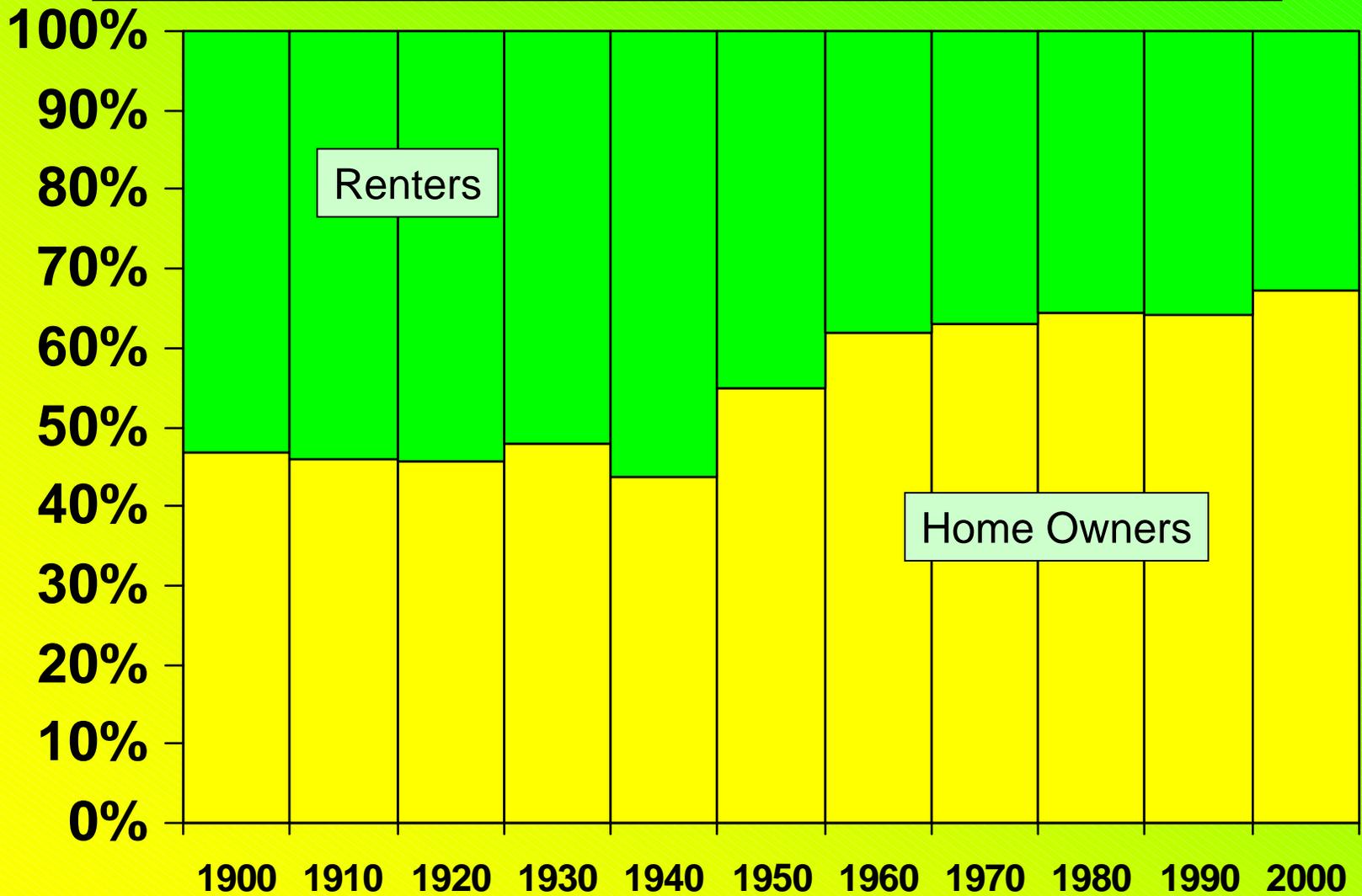


Acapulco

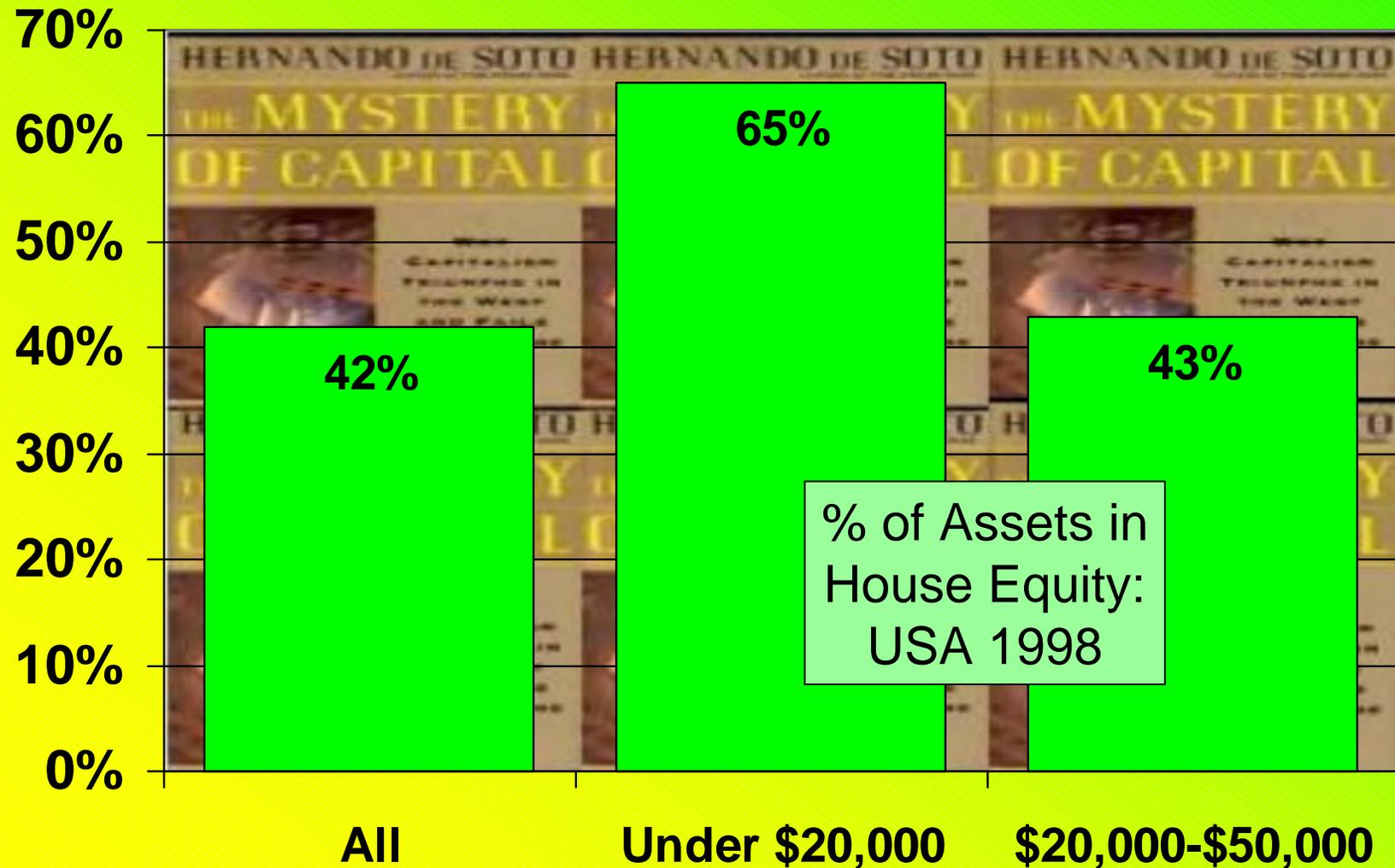
Bucharest



Democratization of Prosperity is Associated with Rising Home Ownership



Economic Impact of Home Ownership



Threatening the Dream

Mexican Dream
Guadalajara

Smart Growth: Strategies & Housing Impacts

STRATEGIES	EXAMPLES	IMPACTS
Urban Growth Boundaries & Green Belts	Portland, Denver Australia, London, Toronto	Raises housing prices
Down-zoning	Northern Virginia, Boston	Raises housing prices
Excessive Development Impact Fees	California	Raises housing prices

COMMON SENSE ECONOMICS



What Everyone Should Know
About Wealth and Prosperity

JAMES GWARTNEY,

RICHARD L. STROUP, AND DWIGHT R. LEE

**BASIC
ECONOMIC
PRINCIPLE**

**SCARCITY &
RATIONING TEND TO
RAISE PRICES**

This means:

**Rationing land for
housing
development
tends to
raise house
prices.**

COMMON SENSE ECONOMICS



What Everyone Should Know
About Wealth and Prosperity

JAMES GWARTNEY,

RICHARD L. STROUP, AND DWIGHT R. LEE

**BASIC
ECONOMIC
PRINCIPLE**

**HIGHER PRICES
TEND TO MEAN
FEWER BUYERS**

This means:

**Higher housing
prices tend to
lead to lower
rates of home
ownership.**

Consequences



Spanish Dream
Barcelona



**“Sun Rises
in the West”
studies**

**Italian Dream
Milan**

ANDRES DUANY

There is NO question that urban growth boundaries and that elaborate environmental public processes increase the cost of housing by creating scarcity. (And don't tell me otherwise, because I am not stupid, nor am I inexperienced, nor do I have underdeveloped powers of observation).

THE LINK BETWEEN
GROWTH MANAGEMENT AND HOUSING AFFORDABILITY:
THE ACADEMIC EVIDENCE

Arthur C. Nelson
Georgia Institute of Technology

Rolf Pendall
Cornell University

Casey J. Dawkins
Georgia Institute of Technology

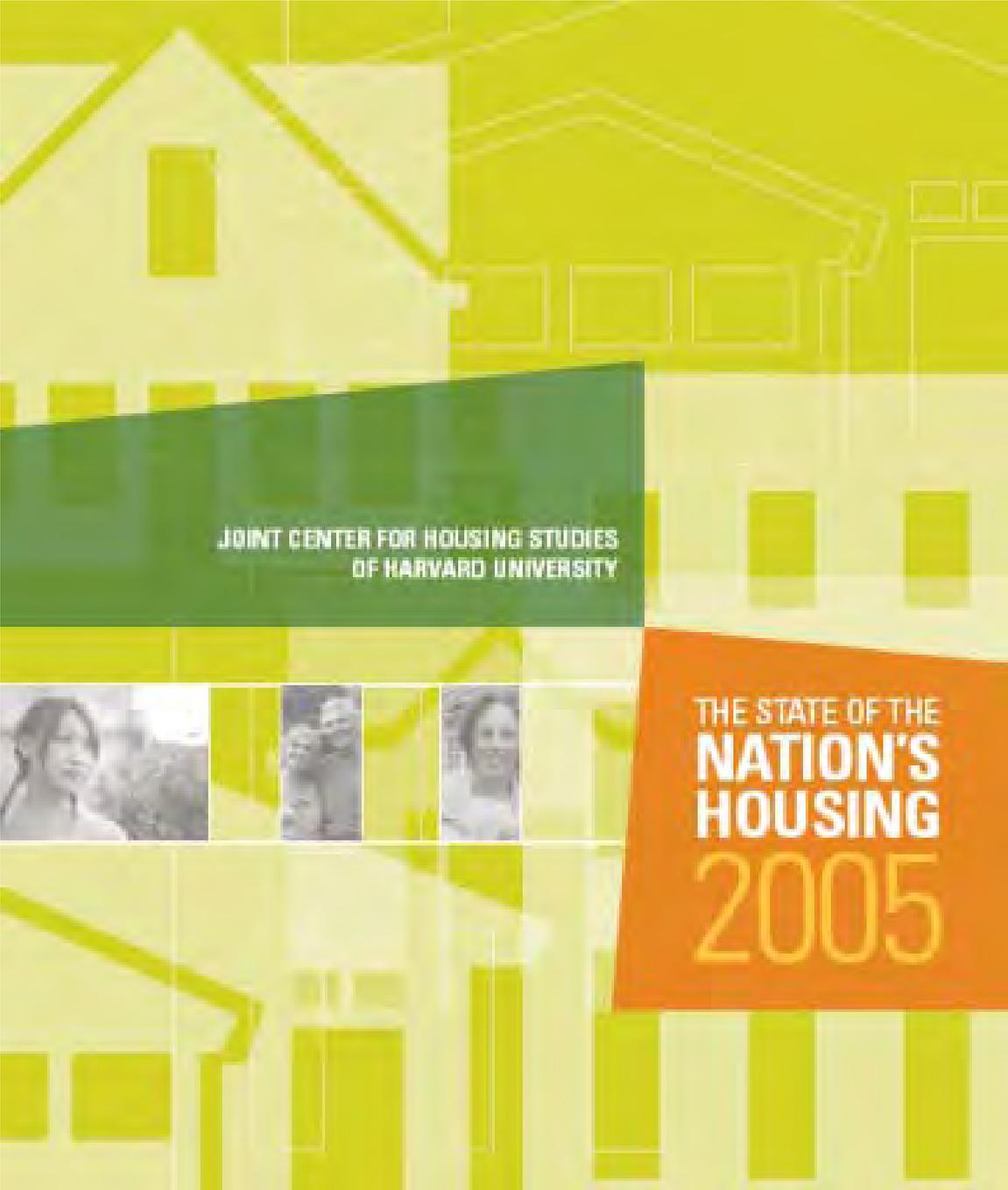
Gerrit J. Knaap
University of Maryland

A Discussion Paper Prepared for
The Brookings Institution Center on Urban and Metropolitan Policy

February 2002

BROOKINGS
(Nelson et al)

“the housing price effects of growth management policies depend heavily on how they are designed and implemented. If the policies tend to restrict land supplies then housing price increases are expected.”



HARVARD
*STATE OF THE
NATION'S
HOUSING
2005*

JOINT CENTER FOR HOUSING STUDIES
OF HARVARD UNIVERSITY

THE STATE OF THE
**NATION'S
HOUSING**
2005

“Development constraints drive up land and construction costs as well as prevent new housing from keeping pace with rising demand.”



WACHOVIA

ECONOMIC RESEARCH



June 8, 2005

Mark Vitase, Senior Economist
www.vitase@wachovia.com

Are There Storm Clouds Ahead For The Nation's Housing Market?

One of the most frequently raised concerns about the economy this year is what will happen to the housing market if interest rates increase further? Much has been made about the growing share of mortgages being financed on a floating-rate basis. With rates rising, will the housing bubble burst? And if the bubble does burst, will it send consumer spending and the economy down with it?

Our answer to these concerns has long been that there is no national housing bubble to burst, so such worries are misguided to begin with. Furthermore, any increase in interest rates through the remainder of this year will likely coincide with stronger job and income growth, which should offset much of the impact from rising mortgage rates. Without stronger growth, there will not be much need for the Fed to raise interest rates.

We have long contended that there is no national housing bubble.



Given this environment, home sales may slow a bit, but sales should still remain near their recent highs. For the year, we are currently expecting sales of new single-family homes to total 1.25 million units and are looking for sales of 6.1 million existing homes.

This report is available on www.wachovia.com/economics and on Bloomberg at WTSC.

WACHOVIA BANK

“We have identified three major factors which have worked to restrain supply over the past decade,

all of which remain very much alive and well today.

The first is the spread of the Smart Growth, Slow Growth and No Growth movements throughout the country.”



HIER

Harvard Institute of Economic Research

Discussion Paper Number 1948

The Impact of Zoning on Housing Affordability

by

Edward L. Glaeser and Joseph Gyourko

March 2002

Harvard University
Cambridge, Massachusetts

This paper can be downloaded without charge from the:

<http://post.economics.harvard.edu/filer/2002papers/2002list.html>

...our evidence suggests that zoning and other land use controls play the dominant role in making housing expensive.



Joint Center for Housing Studies

WORKING PAPER SERIES

**Job Creation and Housing Construction:
Constraints on Employment Growth in Metropolitan Areas**

Raven E. Saks
December 2004
W04-10

Graduate School
of Design

John F. Kennedy
School of Government

HARVARD UNIVERSITY

LAND USE REGULATION RETARDS ECONOMIC GROWTH

metropolitan areas
with stringent
development
regulations
generate less
employment growth
than expected given
their industrial
bases

African-American Home Ownership Higher Where there is More Sprawl





HOUSING CALIFORNIA'S LATINO
POPULATION IN THE 21ST CENTURY:
THE CHALLENGE AHEAD



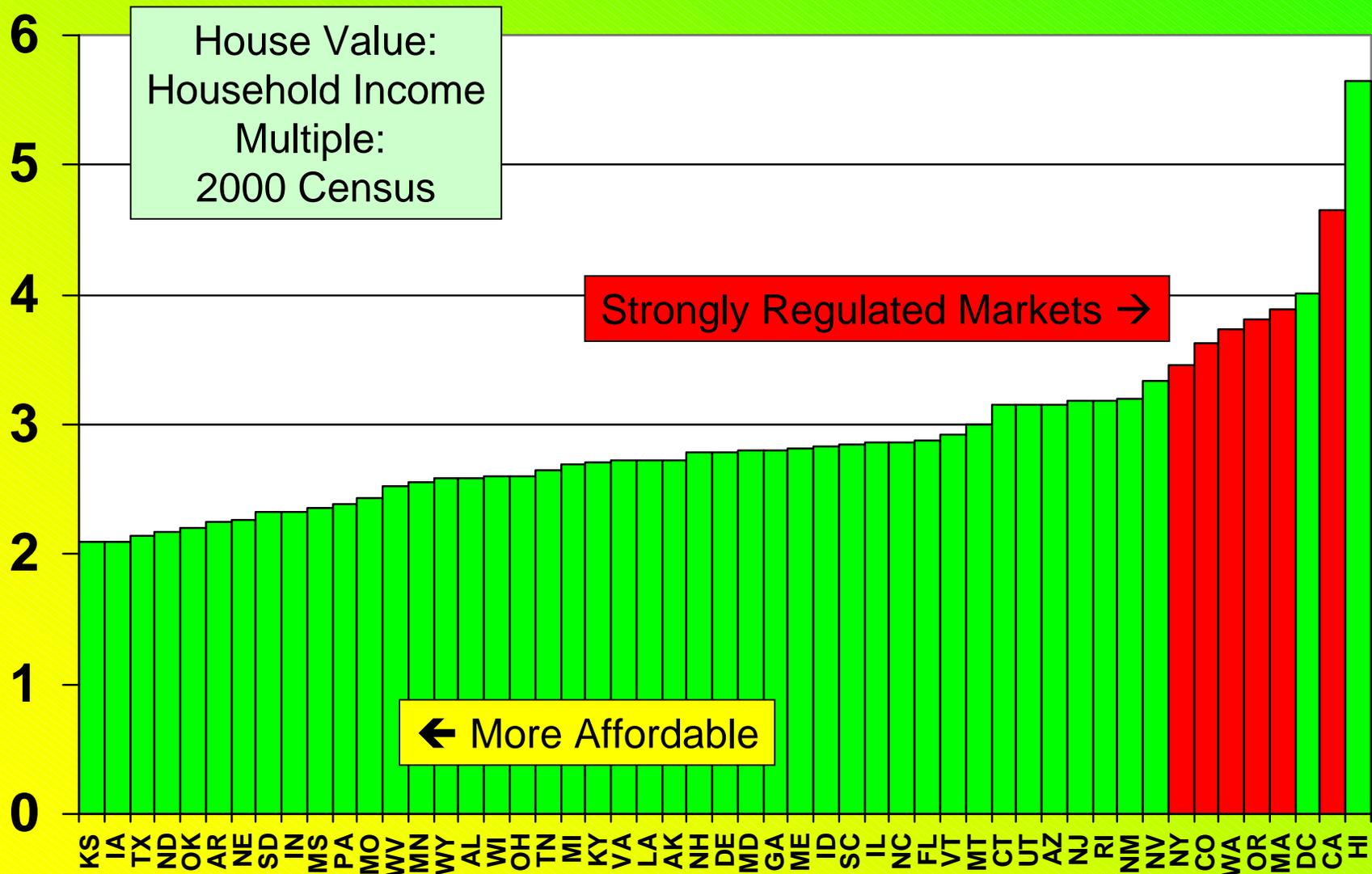
THOMAS RIVERA INSTITUTE

**Principal barriers to
home ownership for
Hispanics in
California**

**Land regulation
Growth controls
Impact fees**

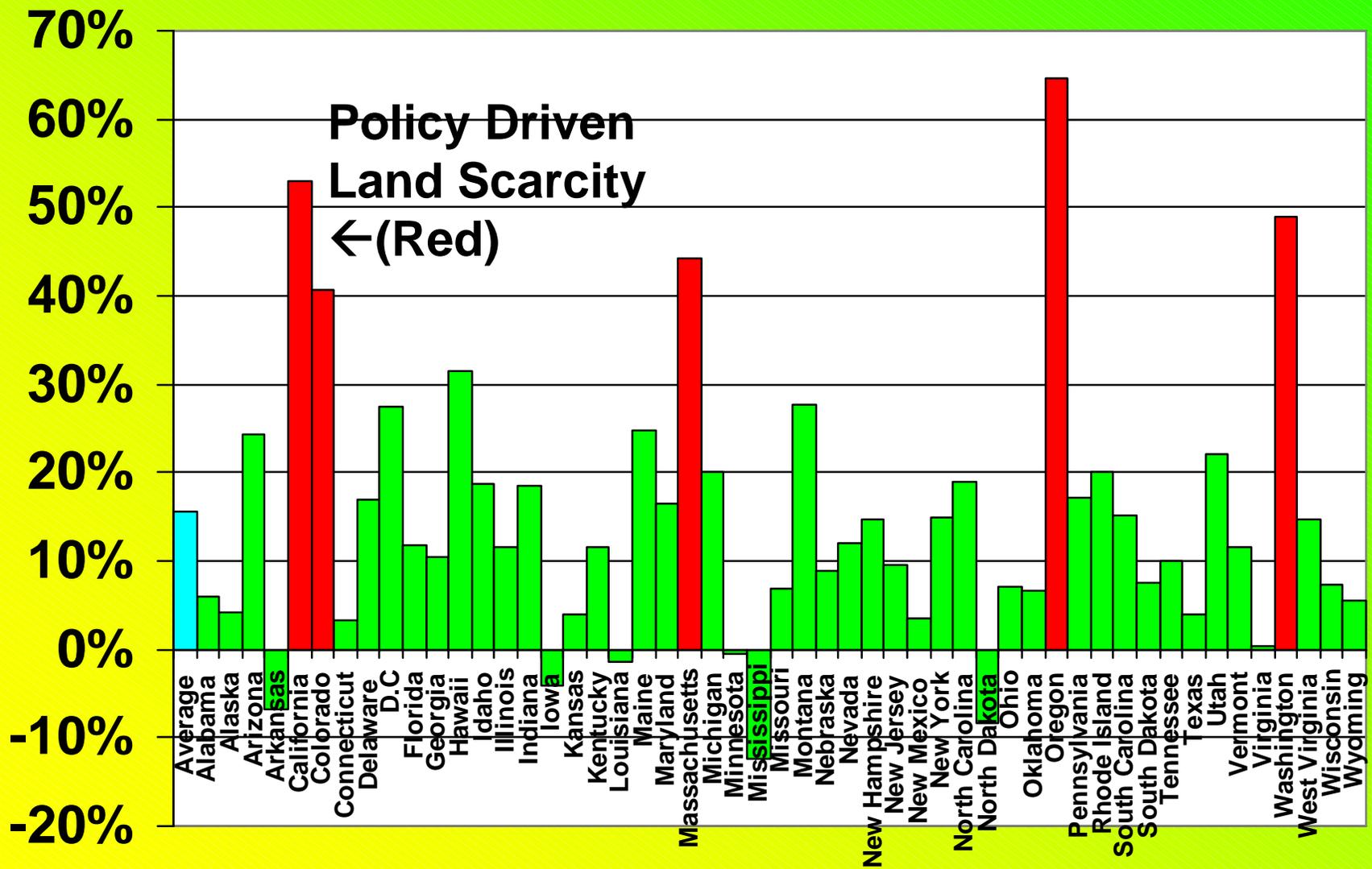
Housing Affordability: States

2000 CENSUS



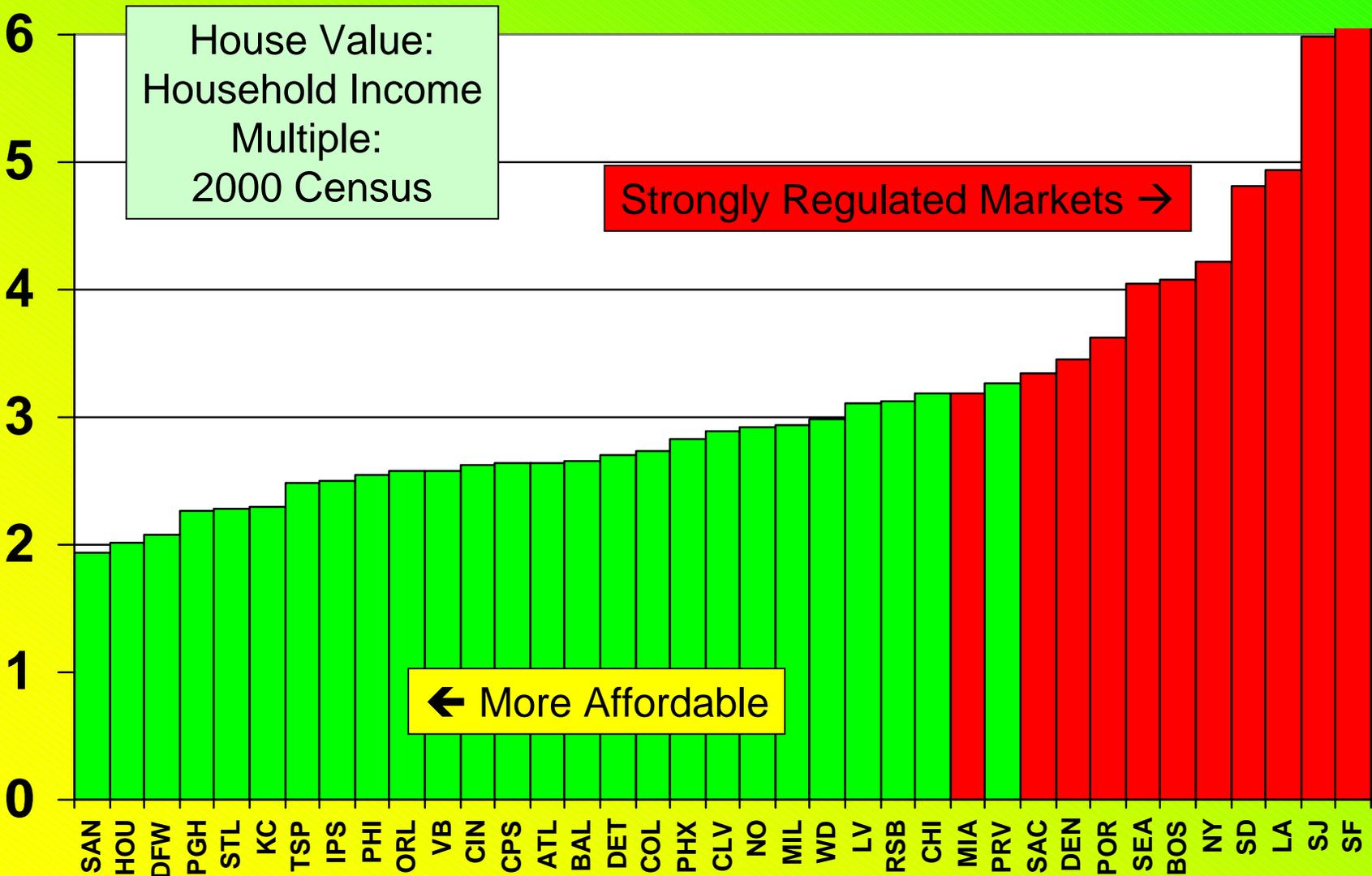
US Housing Cost Multiple

CHANGE: 1970-2000



Housing Affordability: Largest Urban Areas

2000 CENSUS



House Value Multiple: 2000

US CENSUS DATA: LARGE URBAN AREAS





Kiwi Dream
Auckland

DEMOGRAPHIA

International Housing Affordability Ratings And Rankings

2005.02

Pavletich Properties Limited

 **The Courier-Mail**

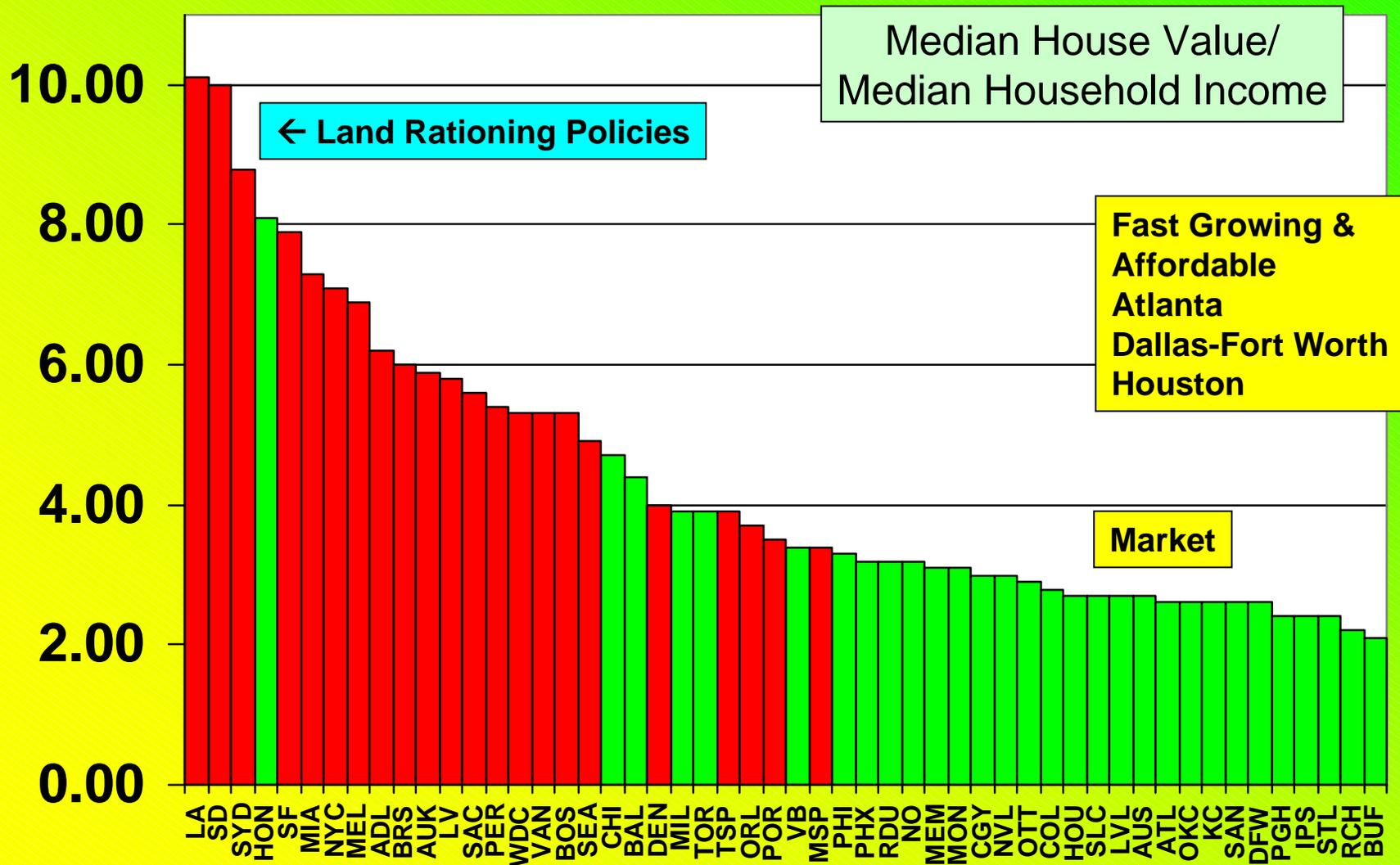
BREAKING NEWS

This story is from our news.com.au network Source: AAP

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Sydney, Melbourne simply not affordable
 By Shane Wright
 13apr05

International Housing Cost Multiple

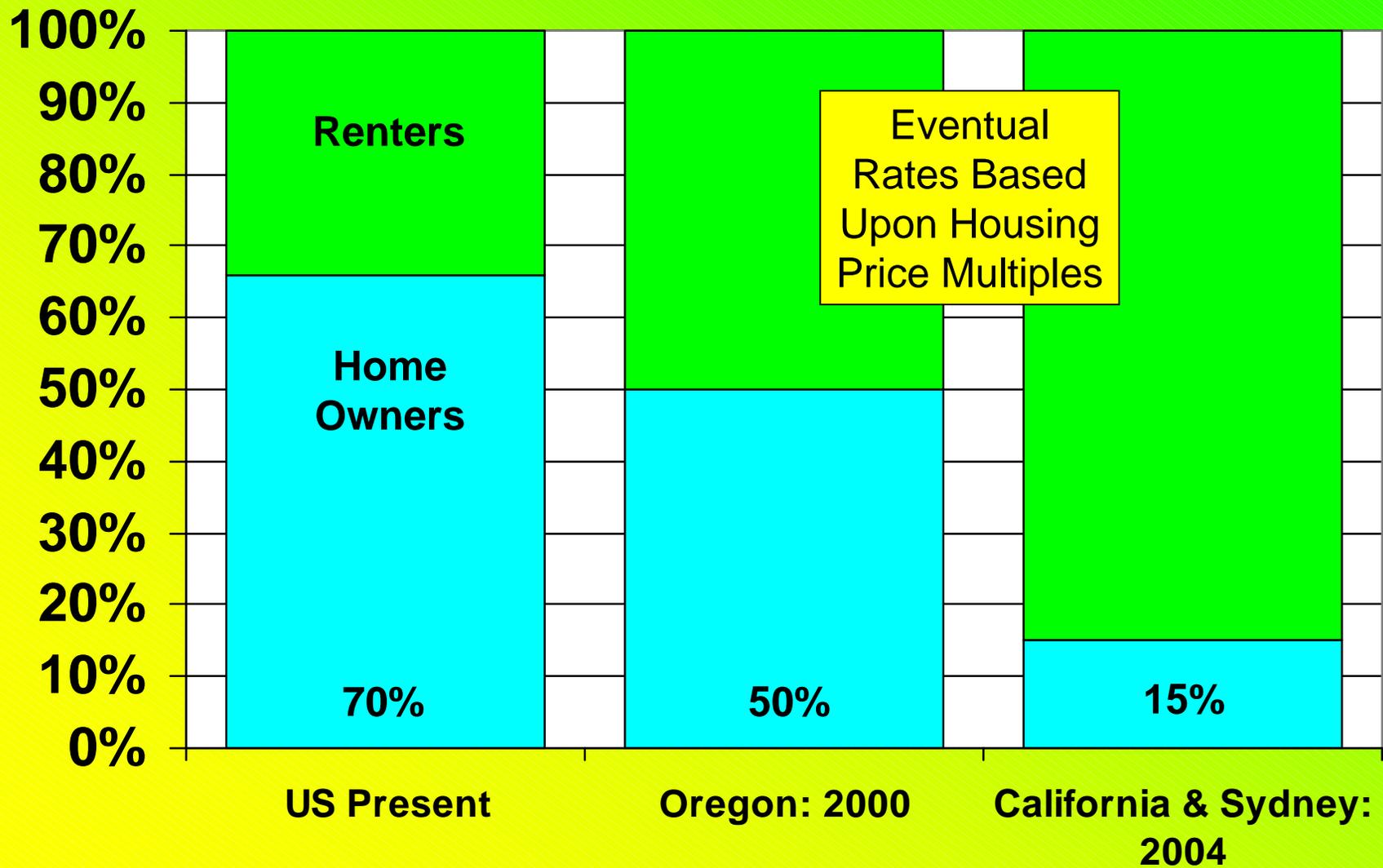


Preserving the Dream

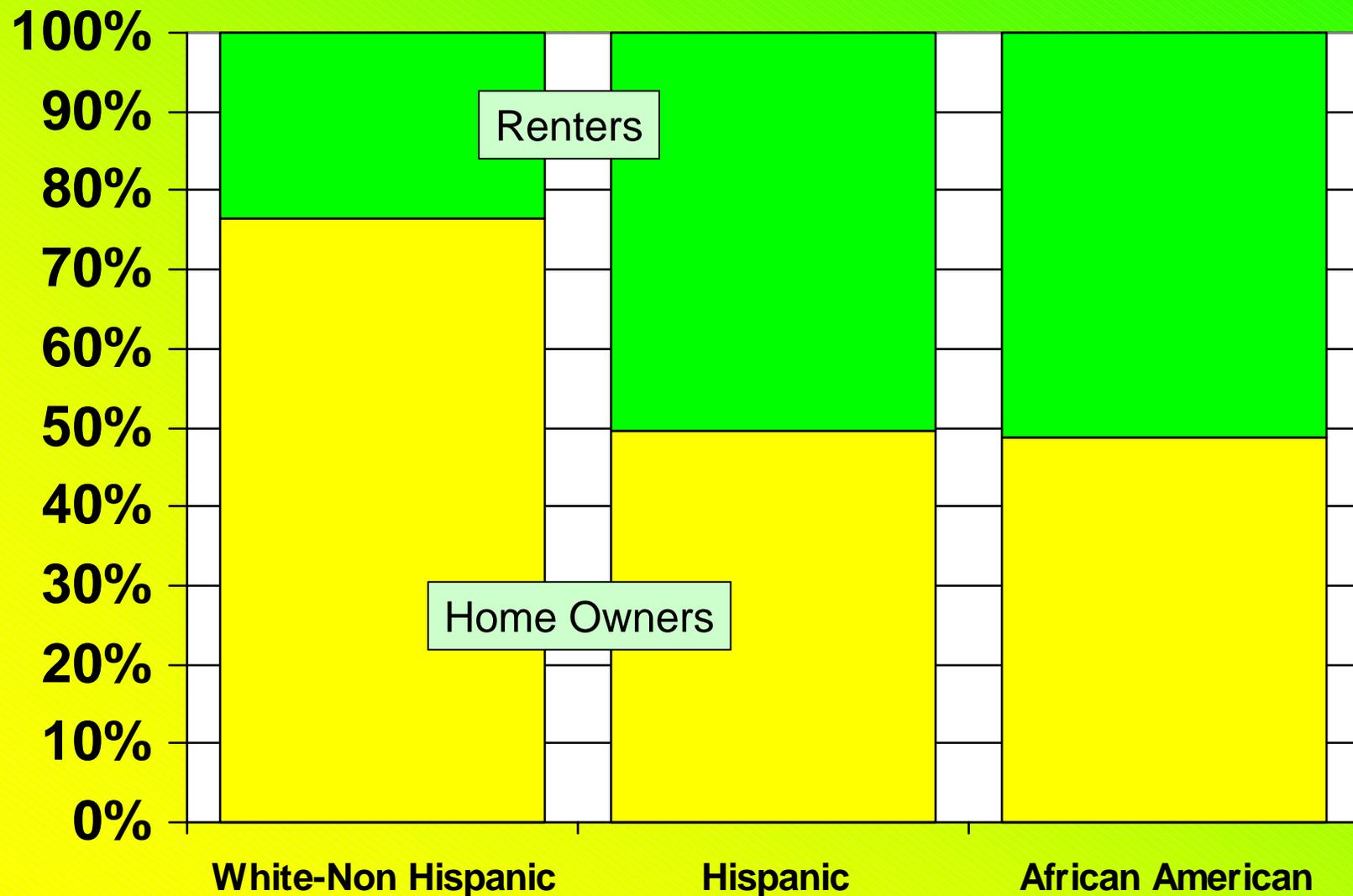


Portuguese Dream
Porto

Smart Growth: Toward a Nation of Renters



Democratization of Prosperity is Not Complete: US Home Ownership Rates by Race



CATO Online Policy Report

Volume XX Number 2 Mar./Apr. 1998

Home Index

Perspectives from four continents

Solving the Global Public Pensions Crisis

CHICAGO SUN-TIMES
suntimes.com

Looming Social Security crisis
demands action now

STRENGTH BEYOND NUMBERS
ca magazine .com

CFOs expect pension crisis to linger

news.telegraph

**Public sector pensions bill for taxpayers hits
£700bn**

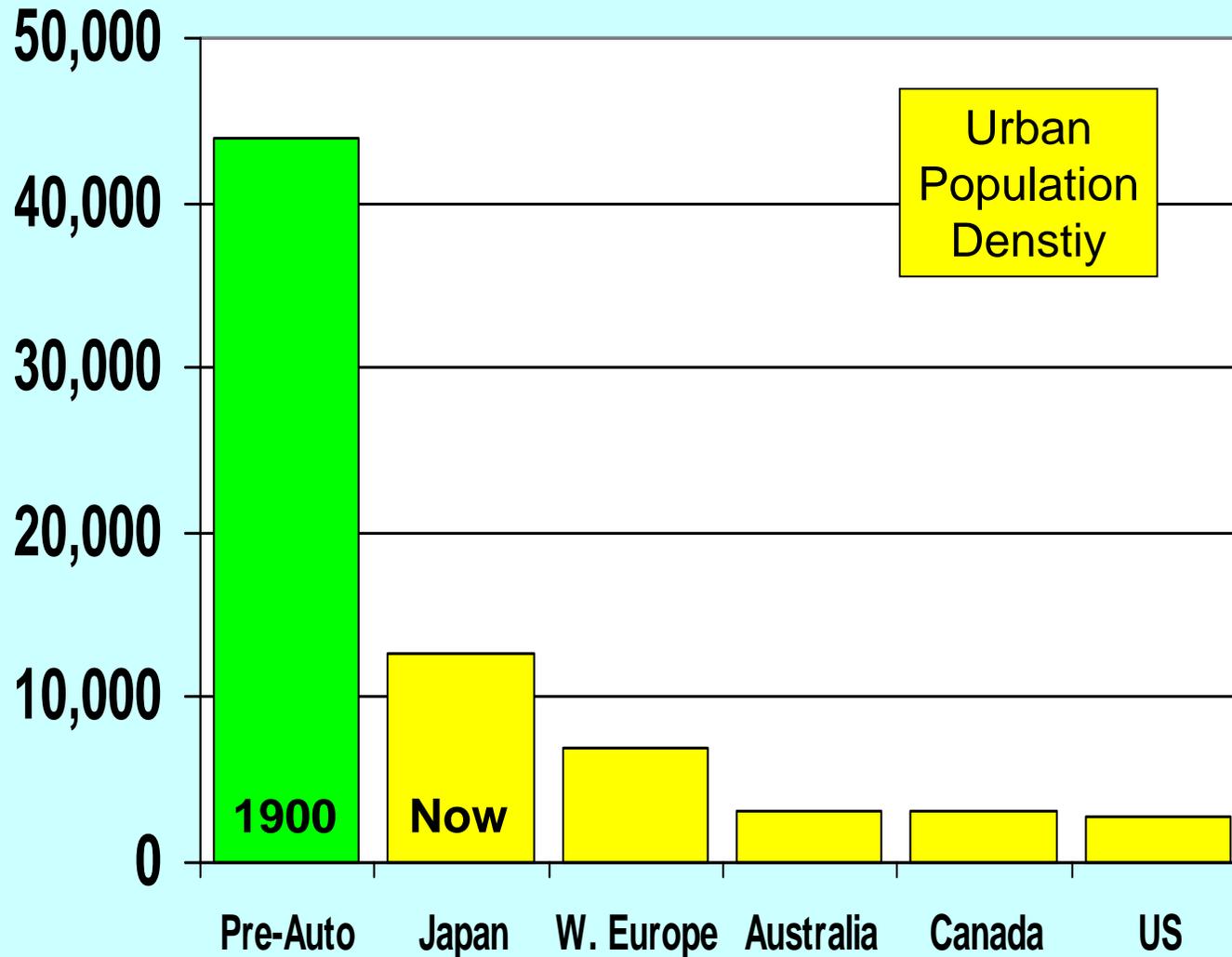
By Ian Cowie, Personal Finance Editor

(Filed: 18/02/2005)

**STRONG
ECONOMIC
GROWTH:
IS
NECESSARY**

**But
“Smart
Growth:”
constitutes
an assault
on the
economy.**

Urban Areas: Pre-Auto & Now



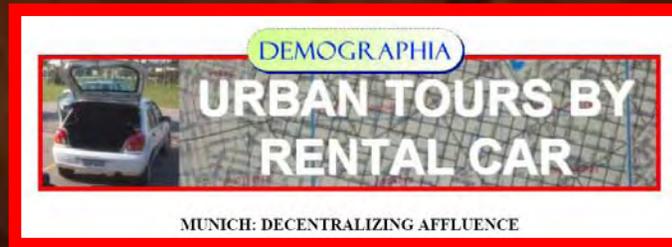
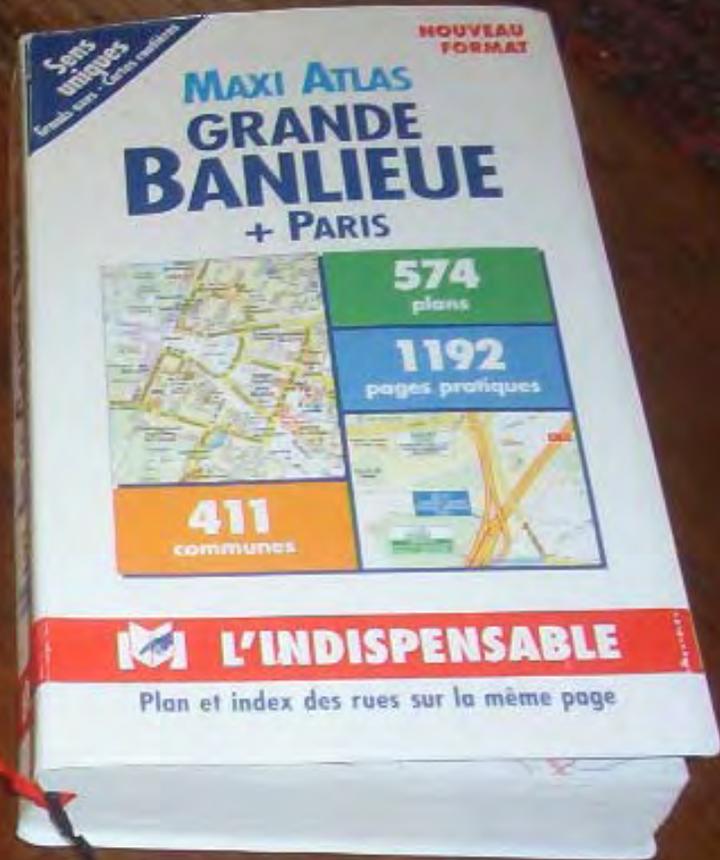
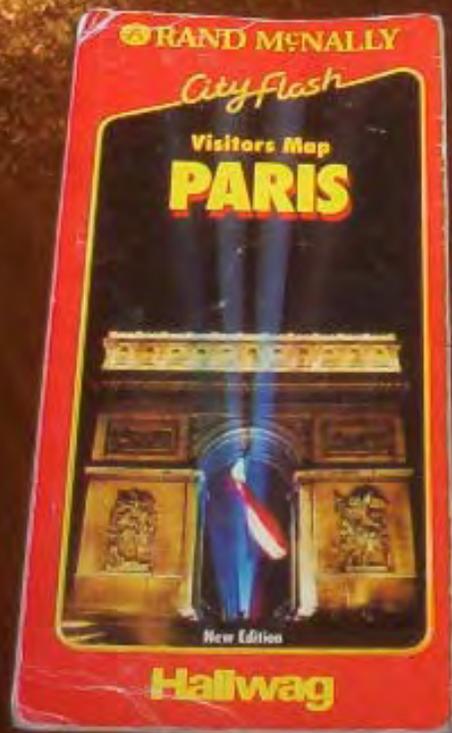
WHY?

**Their
“Vision”
doesn’t
add up**

**Auto-
based
sprawl
is here
to stay**

Paris Atlas
Where People Live
and Work →

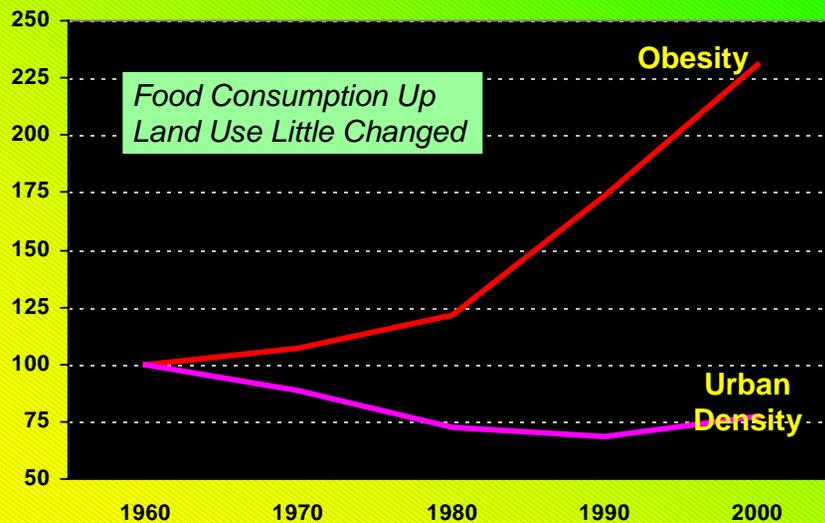
Tourist (&
Planner's)
Map
of Paris →



Urbanized Land in the United States



Obesity & Land Use?



WHY?

Their “imperatives” don’t stand-up to scrutiny.

There is no justification for the destructive strategies of “Smart Growth”



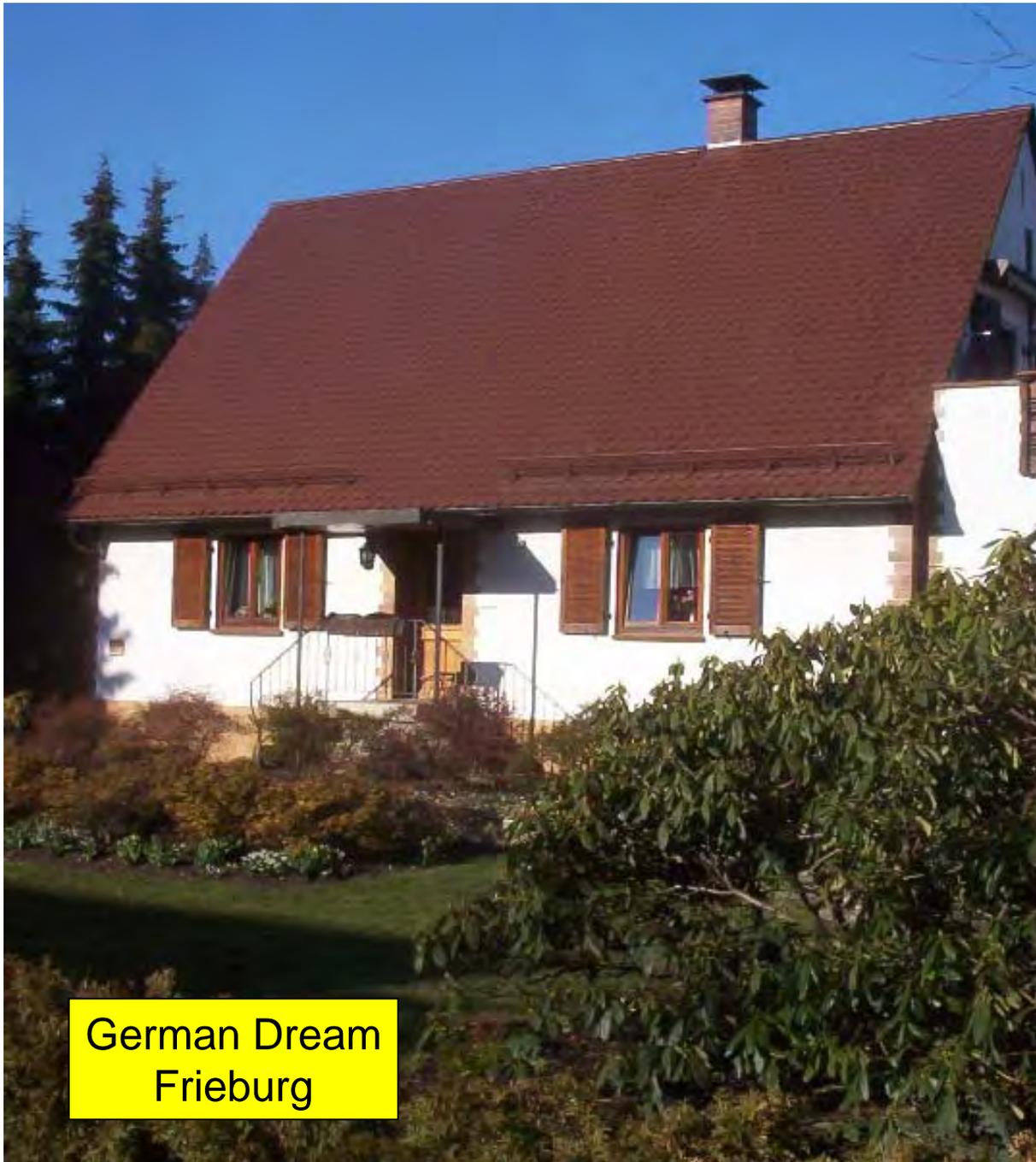
Canadian Dream
Toronto

**THERE
IS
NO
REASON
TO
STOP
DEMOCRATIZING
PROSPERITY**

The Universal Dream “Living in the Future Tense”



New House Billboards
Suburban Valencia, Spain



German Dream
Friburg

THE STANDARD

LONE MOUNTAIN COMPACT

“ ... absent a material threat to other individuals or the community, people should be allowed to live and work where and how they like.”

BACK TO BASICS

THE ROLE OF PLANNING:

Not
telling
people
how to live...

Rather,
helping
people live
as they
prefer

People's
Route → →

Planner's
Route → →

Paris Suburbs