Smart Growth and the Concorde Effect by Randal O'Toole

The Sunk-Cost or *Concorde* Effect is the tendency of people to throw good money after bad. When the British and French governments were developing the Concorde supersonic plane, they soon realized that there was no market for the plane. But they continued to pour money into the project anyway because "they had too much invested to quit."

Economists argue that, in doing benefit-cost analyses, sunk costs should be ignored because the question is whether to invest more money. If the benefits from investing more exceed the costs yet to be invested, it does not matter if previous investments were greater. But this is different from the Sunk-Cost Effect, in which people argue that, even if future costs outweigh future benefits, we should still make the investment because otherwise all previous investments will go to waste.

A paper by two British psychologists demonstrates that humans are the only creatures who make such irrational decisions. Why do people make this mistake? The paper argues that it is a result of our mistaken desire not to waste thing.

The Concorde effect is built into smart growth and other urban planning efforts. Once construction begins on a light-rail line, no matter how wasteful, it is almost impossible to stop. Have a decaying downtown? It would be wasteful to build new developments on the urban fringe, so we pour money into keeping downtowns alive even though it ends up being far more costly in the long run. Have an old derilect rail line? It would be wasteful to leave it; we must turn it into a commuter rail line even if it costs hundreds of millions to bring the rails up to passenger standards.

In fact, there are strong political forces at work here. Naturally, some interests benefit from light-rail construction or downtown subsidies. When critics oppose their plans, they use the sunk-cost argument to tip the balance in their favor.

However, a new paper in the *Journal of Ecology and Society* should give people pause. The paper argues that the Sunk-Cost Effect resulted in the downfall of many earlier civilizations who were not willing to give up cities or other infrastructure that no longer made sense simply because to leave them would be "wasteful."

How many American cities are reducing their economic viability by investing huge amounts in losing downtowns, transportation projects, and other programs? Iowa State University economist David Swenson (who spoke at the 2005 Preserving the American Dream conference) found that cities that subsidize growth actually grow slower than ones that do not. *Orange County Register* columnist Steven Greenhut (who will be speaking on this subject at the September Preserving the American Dream conference in Atlanta) shows that cities that try to subsidize "redevelopment" achieve far less than cities that relax their regulations and let revitalization happen through the market.