Rules to Live By
Smart growth not so smart?

- Wendell Cox
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To the extent that there's been anything about the economy still worrying some journalists and media analysts in recent months, it has been softness in the housing market. Downward price pressures in new housing were noted in October as having contributed to less-than-expected economic growth. On Nov. 20, the National Association of Realtors issued its third-quarter report showing a 12.7 percent decline in existing home sales when compared to the same period last year.

All of this, of course, will refuel the debate about the "housing bubble." Is there one? If there is, will it burst? Paul Krugman, the economist and columnist for the New York Times, has argued that there is a bubble, but it is a geographical one. His thesis is that the "zoned-zone" is artificially inflating housing costs -- and he appears to be right.

A zoned-zone is an area of the nation that has embraced land-rationing policies, usually under the misleading title of "smart growth." Those policies include restrictions on suburban development, such as Portland's (Oregon) urban growth boundary, and requirements for excessively large lots that reduce the supply of land for residential development.

There is little argument about this dynamic among economists -- rationing raises prices and it does so with a vengeance.

Take "smart growth" friendly San Diego -- where today the median house price is more than 10 times the median household income (a measure called the "median multiple"). The historic norm has been a median multiple of 3.0 or less. In San Diego, the median multiple was 3.6 in 1995. In just 10 years, the total cost (including interest) of the median-priced house in San Diego has risen more than $900,000. By comparison, the total cost over a 30-year period of the median priced house has risen only $55,000 in Atlanta, where there is more liberal land-use regulation. And in just the first half of the decade, 100,000 domestic migrants -- people who move from one metropolitan area to another -- have left the San Diego. Who can blame them?

In the San Francisco-San Jose area, the domestic migration loss over the same period has been nearly 550,000. Total population growth in the San Francisco-San Jose area since 2000 has been less than that of San Joaquin County.

State-level home sales tell a stark story. In the states with stronger smart growth or other land-rationing policies, the fall-off in existing house sales has been by far the greatest. During the past year, existing house sales have fallen an average of 20 percent in the highly regulated states. All 18 of these states experienced declines, even in historically fast-growing states like Arizona, California, Florida, Nevada, Oregon and Washington. By contrast, in the less-regulated states, the annual loss was just 4 percent and one-third of these states, including Georgia and Texas, experienced sales increases.

The escalation of housing prices relative to incomes in the highly regulated markets is not the result of low interest rates. The same low interest rates have not produced the same effect in markets with lighter regulation, such as Dallas-Fort Worth, Houston or Kansas City. Nor is the escalation a result of demand, as Atlanta, Dallas-Fort Worth and Houston are the fastest growing large metropolitan areas in the nation, yet the median house price has remained below the 3.0 benchmark.

The problem in highly regulated markets is that the supply of housing is not allowed to keep up with demand. If housing affordability doesn't improve, it is not inconceivable that it could at some point have serious effects on the overall economy, perhaps even a "smart growth" induced recession.

The economic and social consequences are ominous. The hundreds of thousands of additional dollars that must be paid to own a home in California, Florida, Oregon or other smart-growth states will mean less money for other needs. Fewer consumer products will be purchased. Fewer jobs will be created.

But, worst of all, there will be fewer homeowners. Lower income and many middle-income households will find their way to the mainstream of economic life blocked by artificially high prices resulting from naive urban planning policies. It seems likely these higher prices will lead in the long run to lower rates of homeownership.

The cost of this urban design extravagance will fall most significantly on minority households, whose income is generally lower and whose home ownership rate remains a full one-third below that of white-non-Hispanics. In the long run, "smart growth" is simply bad for the economy and for the people on whose enterprise and wealth creation the economy relies.

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