

## **A conversation with David Schleicher on May 15, 2014**

### **Participants**

- David Schleicher – Associate Professor of Law, George Mason University
- Alexander Berger – Senior Research Analyst, GiveWell

Note: This set of notes was compiled by GiveWell and gives an overview of the major points made by Professor Schleicher.

### **Summary**

GiveWell spoke with Professor Schleicher about the effects of increasing urban density and opportunities to influence land use regulations.

### **Potential benefits of increased housing density**

There has been significant research on the negative effects of land-use restrictions in metropolitan areas, particularly in large cities. Some of the most prominent scholars researching this topic are Edward Glaeser, the director of the Taubman Center for State and Local Government at Harvard University, and Joseph Gyourko, a professor at the University of Pennsylvania.

#### *Effects on the economy*

Liberalizing land use could have three major effects on the economy:

1. Producing a large amount of new housing and reducing rents.
2. Accelerating the rate of economic growth by allowing people to cluster more densely in highly productive places and share ideas. This effect could be larger than the tens of billions of dollars that would be spent on housing construction in the absence of zoning restrictions.
3. Reducing house prices, which have contributed substantially to the rise in wealth inequality documented by Thomas Piketty. In a recent review of Piketty's book, Larry Summers noted that "Probably the two most important steps that public policy can take with respect to wealth inequality are the strengthening of financial regulation to more fully eliminate implicit and explicit subsidies to financial activity, and an easing of land-use restrictions that cause the real estate of the rich in major metropolitan areas to keep rising in value." The extent to which American wealth inequality is due to property policy is unclear and should be studied further.

Though land use restrictions generally increase the average value of each property in a region, they decrease the total value of property by reducing the supply of property.

#### *Other effects on economic inequality*

Daniel Shoag and Peter Ganong did a study showing the effect of residential patterns on economic inequality between states. They showed that from 1790 to 1970, the difference in

the per capita GDP of Mississippi (the poorest state in the U.S.) and the per capita GDP of Connecticut (the wealthiest state in the U.S.) decreased. The trend of convergence has not continued since 1970. Professor Shoag and Mr. Ganong showed that this was linked to a variable representing land-use regulation. In states with low land-use regulation, there has been a continued convergence of per capita GDP between states.

### *Environmental effects*

Matthew Kahn has shown that the California Environmental Quality Act (CEQA), which requires government agencies to review proposed building projects, has had unanticipated negative effects on the environment by reducing density.

### **Research questions on the effects of land use policy**

Funding basic research on the effects of land use policy would be very important. There are some academic research centers that would do this, such as the Taubman Center and New York University's Furman Center for Real Estate and Urban Policy. (The Furman Center focuses on issues related to New York City.)

### *Why wages increase for people who move to metropolitan areas*

The effects of urban density on economic growth are not completely understood. Wages increase for people who move from rural areas to cities, but the reason is unclear. Economists have proposed three possibilities for why this occurs:

- People who move to cities may learn from their neighbors, increasing their economic value.
- Cities may create incentives for more specialization or investment in human capital.
- People who move to cities may be self-selected and would have higher incomes eventually in rural areas as well.

The first two possibilities imply that increasing urban density would promote economic growth, but the third possibility implies that the growth would have occurred even if those people had not moved to cities.

### *Determining the effects of land-use restrictions*

It is difficult to determine the optimal amount of land-use restrictions. Restricting construction generally increase the value of surrounding property. This can be due to positive effects of these restrictions, such as improving the quality of a neighborhood, or to the reduction in the housing supply, which is an undesirable outcome of these restrictions. This means that it is difficult to use property values to determine whether land-use restrictions are having a positive effect or a negative effect.

### *Calculating the value of land*

Though Professor Glaeser and Professor Gyourko have demonstrated that land use restrictions have some negative effects, the magnitude of the problem is unclear. To understand the magnitude of the negative impacts, it would be useful to know the total value of land in a region and to be able to see how land use regulations affect that. However, this is a very difficult empirical problem.

### *Projecting effects of proposed zoning changes*

Projecting the effects of increasing the housing supply in a city requires knowledge of the slope of the demand curve for housing in that city. This is often unknown and is difficult to determine.

## **Potential strategies for changing land use regulations**

### *Political mechanisms*

The creation of a zoning law involves a large number of people, each of whom has different preferences on which developments should occur. Given this set of preferences, there can be many different outcomes depending on how the issues are presented. The processes by which zoning is typically done in large cities lead to a more restricted set of outcomes than many other processes would. This is particularly a problem because large cities lack partisan competition.

Professor Schleicher proposed several political mechanisms to improve the effectiveness of the zoning process:

- Municipal governments, rather than housing developers, could offer financial compensation to people adversely affected by new development, out of tax revenues from new development.
- The city council could vote on a "zoning budget". In a recent paper, Dr. Schleicher defines this as a "targeted growth (or shrinkage) in the number of available housing units". Every year, the city council would have to ensure that the net change in housing due to zoning laws matches the goal of the zoning budget.
- The municipal government could provide legal guarantees that zoning laws would be changed if specific negative effects were to result from the laws.

### *Responding to opposition to development*

Some advocates for increased urban density criticize people opposed to new development for being "NIMBYs" ("NIMBY" is an acronym for "not in my backyard") and try to explain to them the merits of development. Professor Schleicher believes that this type of criticism tends to be ineffective. NIMBYism generally results from people wanting to preserve the value of their home, which is often their largest investment, and is typically a rational form of self-interest given the current land use restrictions.

Another strategy is to insure homes against potential decreases in value using futures contracts based on the Standard & Poor's Case-Shiller Home Price Indices. This system

would mean that people would not need to use zoning to restrict supply to preserve the value of their homes. However, the financial markets are not deep enough to insure against changes in home value that occur at the level of a neighborhood or town. They can only insure against changes that occur at a regional level.

### *Changing public opinion*

It is possible that ongoing advocacy for increasing urban density has succeeded in changing the range of preferences that people have on these issues. For example, millennials are more likely than previous generations to support increased development and density.

Opinions on development also vary between demographic groups. For example, Hispanics are more likely, when surveyed, to express support for development than other groups are.

Public employee unions have some incentives to support population growth in cities, just as exporters support free trade. A higher population in a city means that there are more public services to provide, so more public employees are hired. It also means greater tax revenue, so public service providers would receive larger budgets. Thus far, public employee unions have not been significantly involved in zoning issues. It may be effective to try to mobilize public employees to influence zoning politics.

Another strategy is to fund community organizers to create coalitions to changing zoning laws in cities. This type of strategy has previously been used for housing issues.

### *Influencing policy*

It may be effective to create an organization to draft pro-development legislation, similar to how the American Legislative Exchange Council (ALEC) drafts legislation for conservative state legislators. It is unclear why land developers have not funded this type of organization.

In general, politicians tend to favor greater local control, which means greater local ability to restrict development.

*GiveWell asked about the possibility that Republicans at the state level might be interested in liberalizing urban land use.*

Professor Schleicher believes that it is unlikely that Republican state governments will change urban zoning laws to promote more development. Many Republican legislators are opposed to efforts to prevent suburban sprawl. For example, there is strong opposition among some Republicans to Agenda 21, a United Nations action plan to promote sustainable development that warns of the negative effects of suburban sprawl. On the other hand, states with limited zoning laws, such as Texas, tend to be Republican.

### *Connecting economists and planners*

Economists have limited communication with urban planners, which has led to some problems. For example, some urban planners were unhappy about Professor Glaeser's

criticism of historic preservation. Many urban planners view their role as protecting public spaces, and they do not necessarily make the same distinctions between public and private property that economists or lawyers would.

A conference on zoning laws involving lawyers, economists, and planners could potentially help address some of these issues. Professor Glaeser, Professor Shoag, and Professor Kahn could be useful in organizing this type of conference.

### **Other people and organizations working on land use issues**

- SPUR – a civic planning organization based in San Francisco
- Congress for the New Urbanism (CNU) – CNU is similar to SPUR but works at a national level. CNU provides more specific guidance on zoning than Professor Schleicher would and supports greater regulation of building design than he would, but it also supports greater urban density. CNU is active in mobilizing political support for "new urbanism."
- Smart Growth America (SGA) – SGA is a coalition that supports "smart growth" and includes CNU as a member.
- A number of academic researchers:
  - Vicki Been – Former director of the Furman Center at NYU, recently appointed commissioner of housing in New York City.
  - Robert Ellickson – Professor of Law at Yale
  - Christopher Serkin – Professor of Law at Vanderbilt
  - Roderick Hills – Professor of Law at NYU
- Streetsblog – Streetsblog groups are more influential than other similar interest groups.
- Yes In My Backyard (YIMBY) organizations – These organizations are relatively small, consisting mostly of websites, and seem not to have been very influential to date. Examples include:
  - New York YIMBY, a blog focused on new development in NYC
  - In My Backyard – DC (funded by the R Street Institute)
- Donald Shoup – Dr. Shoup has successfully promoted minimum fees for parking in some cities, with the help of local interest groups, such as SPUR and Streetsblog.
- Sam Sullivan – Member of a Legislative Assembly (MLA) in Vancouver and former mayor of Vancouver
- Brent Toderian – former Director of City Planning for Vancouver, which has been prominently successful in promoting downtown development. He has encouraged cities to become denser.
- Environmental organizations – There has been disagreement within environmental organizations over whether to support increased urban density. Environmentalist organizations have traditionally been opposed to increasing density, due to local effects such as the removal of trees. Others believe that increased urban density benefits the environment by reducing greenhouse gas emissions. Environmentalists

need to weigh issues of local harm and global benefit caused by increasing urban density.

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