

*Perverse Cities: Hidden Subsidies,
Wonky Policy and Urban Sprawl*

by Pamela Blais

Vancouver: University of British Columbia Press, 2010

Reviewed by Matthew J. Kiefer

It seems only yesterday that we heard a fusillade of anti-sprawl jeremiads, libertarian rejoinders, and unblinking assessments of the battlefield¹. But the sprawl/smart growth debate seems preternaturally calm lately. Maybe it's because the economic downturn has reduced growth pressures and allowed smart growth to become folded into land use policy in the places that want it. Maybe it's because climate change and greenhouse gas reduction have overtaken sprawl as the emerging land-use policy imperative. Maybe it's just fatigue.

Into this eerie stillness comes Pamela Blais, a Toronto-based planner with the soul of an economist. Don't be misled by her provocative title: She has contributed not another polemic but a thoroughly researched, carefully reasoned, and studiously non-ideological account of how hidden subsidies distort land-use decisions in favor of sprawl.

Her central point is not the familiar one about how federal highway programs and the suite of programs to encourage homeownership—mortgage insurance, the mortgage interest deduction, and the secondary mortgage market—have the indirect effect of promoting sprawl. Neither is it the more subtle point about how allowing landowners to avoid the costs of congestion, air pollution, and infrastructure improvements their land-use decisions produce—so-called “externalities”—facilitate sprawl. (These costs are starting to be priced into the land market through exactions and impact fees.)

Rather, her point is that unrecognized cross-subsidies promote sprawl. The cost of many services that homeowners pay for—especially “linear services” like water and sewer, electricity, gas, phone, internet, cable, mail delivery, garbage collection, and roads—varies with urban form, but their prices for residents do not. Prices are set at average cost across a diverse service territory and don't include marginal costs for serving new customers; the downtown apartment dweller pays the same water rate as the new homeowner at the urban fringe. The apartment dweller is thus subsidizing the fringe-dweller, and neither even knows it.

Blais builds her case methodically—perhaps *too* methodically. She demonstrates how sprawl fails any reasonable cost-benefit analysis, because it inflates

the cost of linear services and is therefore inherently economically inefficient. Yet, using four metrics of reurbanization (the proportion of housing and employment growth occurring in existing urbanized areas), density, mixing of uses, and healthy urban centers, she concludes that North American urban growth patterns have not changed much since growth control began decades ago. So we are paying double: both the cost of planning to curb sprawl and the cost of sprawl.

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While this background is useful, it is not exactly surprising. Where Blais advances the debate is in documenting the hidden subsidies that distort land use decisions in favor of sprawl—and how to correct them. In addition to noting the mispricing of linear services mentioned above, she notes that impact fees are usually calculated by building type for residential use and by gross floor area for commercial buildings. These costs are generally passed through to the end user or buyer, thus cross-subsidizing low density development, which has higher costs for linear infrastructure and services. Similarly, property taxes based on building value do not take into account differential costs of municipal services among different locations and densities, thus also subsidizing sprawl.

Her argument extends to the prevalence of free parking in suburban and low-density settings, which artificially induces demand, which then gets codified in minimum parking requirements, which further entrenches overuse. Such free parking is a cross-subsidy of drivers by non-drivers, since the cost is bundled into other costs and paid for by everyone—for example by all shoppers at the mall in the form of higher prices or by all employees in the form of lower wages.

To address these hidden cross-subsidies and distorted price signals, she advocates “true cost pricing”: charging the marginal cost of providing services to new users in a location-sensitive manner. (This is distinct from “full cost pricing” which internalizes social costs, and from direct incentives for socially useful behavior, though these may be justified too.)

She also favors ideas others have championed, sometimes long ago: taxing land instead of buildings,² location-efficient mortgages, tolls or congestion pricing for road use, and an employee cash-out option for non-drivers like that which California has mandated for large employers to end the cross-subsidy for free parking. An “urban form impact analysis” that addresses the efficiency of service delivery should precede and inform infrastructure grants and other public projects. Impact fees should have two components: not only the standard volume-based charge, but also a location-based charge that increases based on distance from city centers.

Blais deeply believes in the market and extols the multiple virtues of a market-based approach that attacks the problem of sprawl at its root instead of just treating its symptoms. The discipline of the market will be more effective than planning mandates and will have fewer unintended consequences. And since new price signals will be self-actualizing, this will reduce the cost of (often ineffectual) planning and eliminate paying for sprawl with hidden subsidies.

Blais’s approach also allows for more informed choices and promotes fairness and consistency. Here she echoes the increasingly popular hypothesis that transparency—making people aware of the consequences of their choices—can itself be an instrument of policy that alters private behavior in socially useful ways without the need for unpopular mandates.³

Blais sees sprawl as fundamentally a pricing problem, not a planning problem. Sprawl is pervasive because the land-use arena is systemically biased in favor of it. If we remove this bias (this includes correcting low-density single-use zoning that encourages sprawl) and let the market work its inexorable magic, the pursuit of efficient land use will eliminate sprawl. We don’t need heavy-handed measures like urban growth boundaries or regional government.

Her central point—that price distortions should be equalized in the name of fairness and transparency—seems sensible, once you overcome the surprise that a planner has taken so much trouble to methodically demonstrate the superiority of market mechanisms over

planning. But how much do these hidden subsidies actually affect location decisions and land utilization?

To answer that, you would want to know how large the hidden subsidies loom in the overall cost equation for consumers making housing choices or businesses making location decisions. If you eliminated all cross-subsidies tomorrow, would it increase the annual occupancy cost of a new house at the urban fringe by 2% or by 20%? Surely it makes a difference, but Blais does not offer guidance here.

It's also hard to argue that people are influenced by cost factors about which by definition they are unaware. Do homebuyers really calculate their full occupancy costs so carefully before deciding what house they can afford? It seems quixotic to think they are somehow subconsciously drawn to the form of housing that attracts the greatest public subsidy.

And this is only a quibble, but you need to have control over an entire region for true cost pricing to be effective. The regional electric utility could adjust its rates across a wide density gradient if motivated or required to, but the dense central city that has no control over sewer use charges or impact fees in low-density outer suburbs cannot. So maybe the more assertive planning mechanism of regional governance must also be part of the solution after all.

Which brings us to the central question: Just how urgent a policy priority should the sprawl problem be? This requires us to ask both how harmful sprawl is and how popular it is. It has become a quasi-religious precept of the smart growth movement that sprawl is the unintended consequence of thoughtless policies. By arguing that it is in some sense subtly coerced, smart growth advocates reduce the burden of proving that it's harmful enough to warrant reducing freedom of choice to eliminate it.

Without explicitly taking sides, Blais has added support to this approach by arguing that sprawl's popularity is inflated by the hidden subsidies it receives and can be addressed merely by removing those subsidies. This allows her to avoid the difficult question of whether sprawl's impacts warrant limiting land use choices. Freedom of choice, though a bedrock democratic value, entails the freedom to make choices that are bad for you or others, and when and how government should intervene is now a highly contentious subject.

It seems probable that sprawl—like fast food—is both desired and undesirable, at least in unlimited doses, and will not be eliminated merely by sending more accurate price signals to the land market. Today,

not only free market fundamentalists but also landscape urbanists and many others view low-density development as simply a widely preferred settlement pattern—a conscious choice that public policy has evolved to facilitate—one that doesn't need to be eliminated so much as made more ecologically responsible.⁴ Cities with tourist, resort, or knowledge economies that depend on walkable urbanity may have the political will to try to eradicate sprawl—to intervene in the real estate market in the name of urban form—but most places only want to tame it a little.

Still, Blais has a point: Even if sprawl is not bad enough to enjoin, it's not beneficial enough to encourage, and why subsidize something, even inadvertently, unless you want more of it? (We don't subsidize fast food, even though it's popular.) We would probably be better off following her eat-your-vegetables injunction to adjust market signals to be fair and transparent—and let the chips fall where they may. Just don't be sure that would curb sprawl. ♦