

9-1996

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### Recommended Citation

Thorsnes, Paul (1996) "The Market-Oriented Approach to Urban Growth Management," *West Michigan Business Review*: Vol. 2: Iss. 1, Article 7.

Available at: <https://scholarworks.gvsu.edu/wmbr/vol2/iss1/7>

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Acknowledgments: We are very grateful to the following organizations for participating in the survey.

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First Michigan Bank Corp.	Lorin Industries	Worden Co.
	Louis Padnos Iron & Metal Co.	Zelenka Nursery

Dean Emery Turner provided encouragement and comments. Capable research assistance and a great deal of diligent effort was given by Lee LaFond, research intern at the Office for Economic Expansion. Sharon Palmitier of OEE did the final formatting and editing. I am grateful for all their help.

## ***The Market-Oriented Approach to Urban Growth Management***

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How best to accommodate the steady growth in population and employment in the Grand Rapids metro area is a hot topic these days. This comes as no surprise because growth means change. Some of the changes are good: a greater variety of higher quality goods, services and cultural events, a better range of employment opportunities, and a larger pool of qualified workers. Some of the changes are not so good: congested roads and recreation areas, unsightly development, loss of farmland and open space, pressure on natural environments, and higher housing and labor prices. Given how bad things have gotten in other growing areas, many people wonder if changes in key public policies now might cost effectively reduce some of the negative effects of growth later.

Recognizing that effectively addressing the problems associated with regional growth requires cooperation among many local government agencies, business organizations (such as the Chamber of Commerce and the Home Builders Association) have joined with public and non-profit organizations in encouraging local elected officials to participate in the Metro Council. As a first step toward managing growth, the Metro Council assembled a study team to look at growth trends, identify the problems associated with growth, and make recommendations about how to deal with these problems. Rather than reinventing the wheel, the study team started with the common threads from similar exercises conducted elsewhere, and wove them into a "Metropolitan Development Blueprint".

The Blueprint targets urban sprawl as the source of many of the problems associated with growth. As an alternative to sprawl, it envisions development directed into relatively compact centers to which local agencies can provide public services cost

effectively. In addition, the Blueprint envisions a network of open lands and greenways that helps define communities, provides recreation opportunities, and protects watersheds and wildlife habitat.

Given the Blueprint, attention now turns to implementation. Achieving the vision of land development embodied in the Blueprint will require significant changes in the way most local public service providers do business. Experience in other metro areas demonstrates how difficult it can be not only to convince local jurisdictions to change policies, but also to get them to do it in a coordinated way. Given the limits in their political power, metro governments elsewhere have discovered that flexibility and an entrepreneurial spirit are essential to induce changes in local policies.

There are many ways to attack the problems associated with growth. Policy options range from direct regulation to *laissez faire*, and each approach has its strengths and weaknesses. In between are policies, which are currently getting a lot of attention, that take advantage of market mechanisms. Market-oriented policies are attractive because they reduce the amount of information and analysis government requires to make good decisions. They give the right signals to the right people: the hundreds of thousands of metro-area households and businesses who use land, transportation, and urban public services.

Space does not allow anything approaching a comprehensive description of market-oriented policies, but the following discussion shows the logic that underlies a market-oriented approach to local policy.

**Transportation.** This is the major issue: transportation systems and technology are primary determinants of urban development. We build highways in suburban areas in part to reduce urban congestion and in part to improve access to suburban land. Businesses and households take advantage of that suburban access, sometimes too much advantage: 28th Street used to be a beltline bypass and downtown Grand Rapids used to be the region's commercial center. Though it's tempting to build more low-cost rural bypasses, many people recognize that doing so will not eliminate traffic congestion (it may exacerbate it) nor encourage development in the central areas that want it and that contain the public infrastructure to support it.

Two general policies recommend themselves:

1. *Improve access to those areas we most want developed.*  
Yes, it *costs* less to build a rural bypass than to add lanes to an urban freeway. But the long-run *benefits* of maintaining patterns of access may outweigh the added cost.
2. *Design the highway system to facilitate congestion pricing.*  
None of us like highway tolls. But congestion tolls (tolls that vary by time of day) do all the things that prices typically do in markets. They (1) allocate scarce highway space to those who value it most, (2) decrease congestion and travel times, (3) encourage use of high occupancy vehicles; (4) provide the funding necessary to maintain and expand the system; and (5) impose the financial burdens on the rush-hour drivers who demand the capacity.

**Public Services.** Public-services policies tend to encourage low-density development. Many fringe jurisdictions allow development and impose no service fees in areas that lack improved streets, sewer, water, or drainage. When the area eventually develops enough to require improvements, these jurisdictions often lack the funds to build them. In addition, service fees rarely vary with cost, a practice that can subsidize development in farther-flung and lower-density areas.

Again, two policies recommend themselves:

1. *Adequate Public Facilities Requirements (APFRs).*

Rejecting requests for development in areas that lack adequate public services is a cornerstone of the Florida growth management program. But, APFRs can be hard to sell because they seem unnecessary in the short run, and they may encourage low-density development by deflecting development from areas with relatively high traffic congestion.

2. *Systems Development Charges (SDCs).* SDCs require developers to pay up front for the services their development requires. SDCs give service providers the revenue they need when they need it to extend services, and they discourage development in areas expensive to serve.

**Land Development.** Conventional zoning potentially serves a variety of purposes. Ostensibly, it attempts to reduce conflicts among land users by putting distance between them. Subdivision and building codes detail requirements for structures, local streets and public utilities in an effort to ensure functionality and safety. Researchers find it difficult to measure zoning's effects on land development because low-cost transportation in suburban areas encourages the segregated, low-density development zoning requires. It seems safe to say, however, that zoning discourages relatively high-intensity development in suburban areas.

The problems with conventional zoning and subdivision codes are easy to identify. First, doing zoning right requires sophisticated analysis of mountains of data. Second, rigid zoning and subdivision codes, and drawn-out processes for approving variances, discourage developers from experimenting with higher-intensity development patterns. Third, and perhaps most important, conventional zoning does nothing to discourage the behaviors that irritate neighboring land users, it just moves the worst offenders farther away.

Again, two policies recommend themselves:

1. *Flexible Zoning.* If we want developers to experiment with innovative designs, we should expect to find an equally innovative spirit in regulating agencies. Implementing flexibility, of course, is costly, though the additional effort may be worthwhile.

2. *Performance Standards/Impact Fees.* Performance standards allow the developer flexibility in design, as long as he can show that the design will meet the standard. Impact fees encourage developers to find ways to reduce the negative impacts of their projects, and provide funds with which to compensate neighbors for the impacts that remain. Standards and fees provide the right signals: businesses and households choose locations and activities based on the benefits of location and the costs of conforming with the standards or paying the impact fees. Moreover, each land user, rather than a regulatory agency, decides how it can best meet the standards or cope with impact fees.

**Land Conservation.** One of the most agreed-upon methods of preserving quality of life in the face of growth is preservation of open space. Public agencies have long purchased land for recreational purposes. But purchasing large amounts of open space is expensive. Preserving open space through zoning, though inexpensive to government, has met with mixed success due to its negative impact on land value.

Protection of farmland has also become a priority in rural areas near the urban fringe. In agricultural states farmers support agricultural zoning to limit non-farm development, and urban dwellers support agricultural zoning as a way to discourage

growth and preserve open space. Nevertheless, its impact on land values makes zoning hard to swallow.

Any policies that discourage sprawl protect land at the urban fringe from development. More aggressive and market-oriented policies include:

1. *Purchase of Development Rights (PDR).* PDR programs stretch funds by paying farmers only the difference between the market value of their land and its value in farming. A PDR program works like zoning in that it restricts the use of the land, but it compensates the farmer for those restrictions.

2. *Transferable Development Rights (TDR).* TDRs add a market dimension to PDRs. With TDRs, the local jurisdiction chooses the amount of land to preserve, 80% of a certain township, say, then gives permits to each landowner to develop 20% of his land. The farmer, who has excellent information about the productivity of his land, can (1) sell off the least productive 20% of his land for development; (2) purchase additional development rights from another farmer and sell more than 20%; or (3) sell some or all of his development rights to another farmer. The market, rather than the government, determines the land to preserve.

**Intergovernmental Cooperation.** The delivery of urban services in the Grand Rapids metro area, as in virtually every other area, is fragmented. The numerous zoning, development, and building codes give developers migraines. More vexing is the fact that the policies that one city or township implements can have significant effects on its neighbors, effects each jurisdiction has little incentive to consider. Adding to the complexity of interjurisdictional spillovers are the numerous special districts (e.g., school, street, sewer, water, and drainage districts) that work with varying amounts of independence to provide services within one more political jurisdictions.

An obvious way to reduce spillovers is to reduce the number of independent agencies: shift responsibility to a regional planning authority. Indeed, regional government is essential to effectively addressing the problems of interjurisdictional spillovers and coordination. The current fragmented system of local governments, acting largely independently, is analogous to a large, multi-divisional corporation with no board of directors and no corporate office. As unthinkable as this would be in business, this is business as usual in many metro areas.

But deciding just what a regional government should do is difficult. It's tempting (just as it's tempting in business) to simply centralize decision-making. Coordination's not much of a problem when the CEO or board of directors makes all the decisions. The problem is that central governance, whether public or private, shifts decision-making authority and responsibility away from those with the information necessary to make good decisions. Gathering and analyzing information, making good decisions, then inducing those in the trenches to implement those decisions is extremely difficult from a central position.

A market-oriented approach to regional government focuses more on coordination and motivation than on regulation and coercion. In private businesses this means focusing better on the consumer, re-engineering the corporate structure to get more people in the decision-making loop, or changing the compensation system in ways that better align individual incentives with corporate objectives. Of course, the realities of politics probably makes re-engineering government even more difficult than re-engineering companies. Nevertheless, it seem appropriate that regional government:

- *Collect, process, and distribute information.* Good decision-making, at any level, requires a lot of information. Two projects suggest themselves: (1) a regional public-policy center that gathers, evaluates, and disseminates policy information; and (2) creation of a regional electronic geographic information system (GIS). The Information Center at GVSU's Water Resources Institute offers a model for GIS in that it puts the technology and the ability to use it in the hands of local decision-makers.

- *Set regional objectives, standards, and policies that are sensitive to local conditions.* Coordination requires regional policy. But those policies won't be effective unless they're tailored to local conditions and supported by local decision-makers. The complexity of the regional economy recommends a flexible approach that iterates between objectives, policies, and outcomes: the means should get as much attention up front as the ends.

- *Use regional public services to influence local incentives.* Some services, such as transportation planning, that are conducted at the regional level influence local market conditions. Regional investments that create favorable market conditions aid local policymaking.

- *Facilitate cooperation among service providers.* Getting coordinated means improving cooperation. Over time every jurisdiction will make decisions that affect a neighbor, and will suffer the costs or enjoy the benefits of a neighbor's activity. Encouraging local jurisdictions to establish cooperation agreements with their neighbors would go a long way toward improving service delivery systems.

## West Michigan Stock Performance

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