

## Comment on Carl Abbott's "The Portland Region: Where City and Suburbs Talk to Each Other—and Often Agree"

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### *Abstract*

The Portland, OR, area's urban growth boundary is an idea whose benefits to the region may depend on a willingness to expand the boundary occasionally. The parable contained in this comment suggests that the declared unwillingness to expand the urban growth boundary could have contributed to Portland's recent sudden increase in housing prices. It further suggests that an inflexible attitude toward the boundary could cause long-run losses in employment in the Portland region, with few if any offsetting environmental benefits. Other regions should be aware of the potential drawbacks of installing such a boundary.

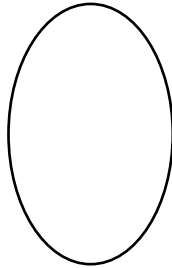
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In the old days, when there was labor-union strife, people used to ask, "Why can't business and labor get together?" To this, Mr. Dooley (the voice of humorist Peter Finley Dunne) used to respond, "If business and labor ever do get together, it's good night for the rest of us."

Nowadays, a similar question is perennially asked about central cities and suburbs: Why can't they get together to solve their common problems? Carl Abbott has described the remarkable collaboration between the city of Portland, OR, and its suburbs. It does seem that Portland has performed the trick of uniting the interests of its suburban and central-city residents, at least as far as land use issues are concerned. As an outsider and an economist, I can hardly gainsay the political analysis of a long-time professor of urban studies at Portland State University. I propose instead to employ economic principles, offered in the form of a parable, to ask whether Portland's accomplishment is in the long-run interests of Portlanders and the rest of us. Readers are invited to draw their own conclusions as to whether there is any resemblance between the following story and Professor Abbott's account of Portland.

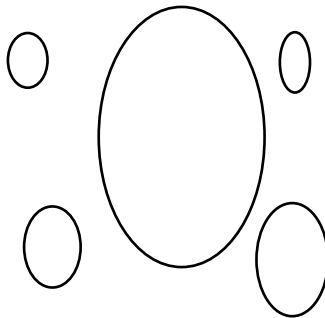
An island called Zeeland (figure 1) is surrounded by an ocean from which fish are taken and sold to both Zeelanders and people on other islands. However, 96 percent of Zeeland's economy consists of services and manufactured goods, which the inhabitants trade among themselves and with people on other islands.

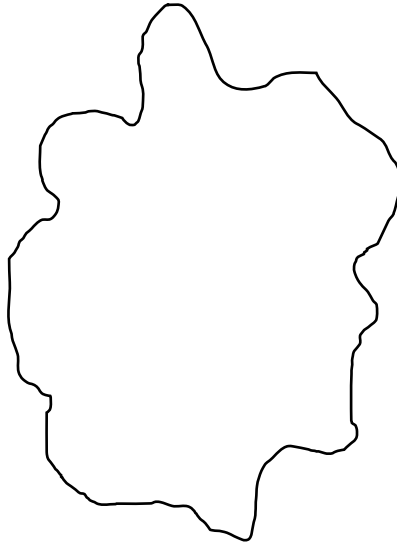
*Figure 1. Zeeland, Phase 1*



Zeeland is a pleasant island, and when its economy is doing well, it tends to grow in population as people arrive from other islands to take jobs. Growth traditionally took place in the following manner. When people arrived, they initially crowded into the existing housing stock. Since this caused prices to rise, developers of new housing saw a profit opportunity, and eventually more housing was built. Most of the new housing was initially built on newly created islets near Zeeland (figure 2); that is, developers would fill in the surrounding shallows with little islands. Eventually, enough little islands were created that they merged together (figure 3).

*Figure 2. Zeeland, Phase 2*



*Figure 3. Zeeland, Phase 3*

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This process of development worried Zeelanders. The more naive said the ocean would eventually be filled in and they would run out of fish. (They somehow failed to notice that most of the fish they ate came from other islands and that the ocean was rather large.) The more sophisticated said the pattern of development made it harder for people on the outer islets to get to the island center, where jobs had traditionally been located, and for people in the center to get to the edges, where many new jobs were located. And many just disliked the messy pattern by which offshore development was taking place.

In response to these concerns, Zeelanders passed a law freezing for several years the island's borders where they were. It prohibited anyone from filling in any more shallows to create more islets. Housing for any net growth in the island's population in the next few years would have to be in homes built in spaces on the existing island.

The establishment of the new island growth boundary (IGB) did not cause any serious problems initially. Yes, some developers who formerly had the right to fill in shallows did complain, but the existing shores of Zeeland still encompassed much vacant, developable land. Newcomers had little trouble buying housing built on such lots and living pretty much like the old-timers on

the island. It helped that immigration to Zeeland was not especially strong for many years, as the Zeeland economy was not expanding very rapidly.

It also helped a lot that owners of undeveloped land on Zeeland understood that the IGB would eventually be loosened. When growth began to push up prices so that land and housing were less affordable to newcomers, the government was supposed to allow new land to be added to the island. It would not be added in the traditional “leapfrog” way, though. There would be no more little islets popping up in the shallows. Instead, all new infill would be contiguous to the island, so that it would expand like a balloon. Leapfrog growth was out; orderly, contiguous growth was in.

After 20 years, much of the previously undeveloped land in Zeeland had been occupied. The Zeeland economy had picked up, and more and more immigrants were arriving. Developers then pointed out that the IGB should be expanded, as had been planned long ago. But Zeelanders could not bring themselves to do it. Instead, they decided to try to accommodate all new development within the existing confines of the island, requiring developers to use the existing vacant lots.

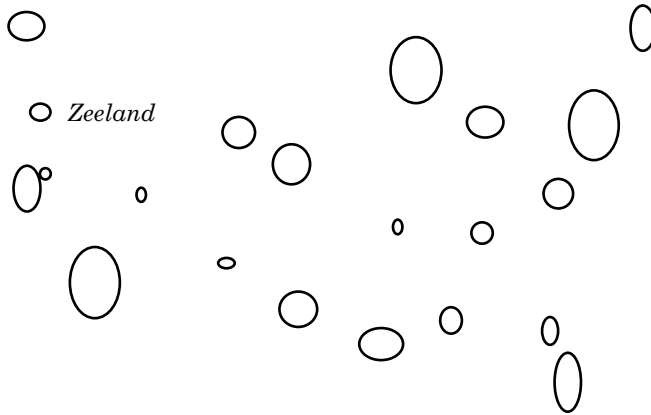
The decision not to expand the IGB was the trigger for a land price explosion. Owners of vacant land had formerly expected that the government would expand the IGB and thus add more vacant land. Now they realized that they were in the catbird seat. Their land acquired a value they hitherto had not anticipated. Developers who had been waiting for newly created land outside the IGB to be added to the market now desperately sought to buy existing land to satisfy newcomers’ demands for housing. But landowners were reluctant to sell very much. They saw that their undeveloped land was suddenly a much better financial asset than it had been just a few years before. Why should they sell for \$50,000 an acre when they could get \$100,000 in a few years? Now confident that the IGB would not add any more land to compete with their sites, owners sat and watched their land’s value skyrocket.

As a result of the land price inflation, many newcomers, who formerly would have bought new houses built on vacant land, now turned to the existing stock of housing. They bid up the price of existing homes. Other newcomers settled for less spacious homes on much smaller lots on the few acres of land available to be developed.

None of this displeased most of the longtime residents of Zeeland. The value of their homes was going up considerably, and they were getting rich as a result (especially after they voted themselves a few property-tax cuts). When newcomers complained about the price of housing, the longtime residents pointed out how nice their island was and said that having the newcomers live in the new, densely packed little huts—the only housing most could afford—would make Zeeland even more picturesque. They also pointed out that most people's trips to work would be a few minutes shorter because things were closer together in Zeeland.

But eventually some cracks developed in the plan. The reason is that the Zeelanders had overlooked another picture of their island. Zeeland was just one little island in the ocean. From 80 miles overhead, it looked something like figure 4.

*Figure 4. Zeeland from Space*




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Businesses that had moved to Zeeland and had created the immigration boom by offering more jobs began to have a problem. They were finding it increasingly difficult to induce new employees to move to Zeeland. When they were recruiting on other islands, they showed pictures of how nice Zeeland looked, but prospective employees soon realized that there was a rather stiff price tag attached. Either they would have to spend a fortune to live in houses like those on other islands, or they would have to live much more modestly (in the picturesque little huts).

To offset the higher housing costs, prospective employees insisted on higher wages in order to move to Zeeland. At first,

businesses agreed, since business on all the islands was booming. But eventually they found that they could no longer compete with businesses on other islands. Their labor costs—about 70 percent of costs for most businesses—were so high that they could not sell their products at competitive prices.

After a while, businesses began to leave Zeeland for islands where it was not so costly to live. Even many native Zeelanders decided to sell their homes and move away in order to take advantage of the lower housing prices and better-paying jobs elsewhere. Zeeland was eventually left with a large stock of densely packed little huts in which few people wanted to live.

What Zeelanders had neglected to see was that Zeeland, though itself a sizable island, was only one of hundreds of pleasant islands in the sea. What looked like an unstoppable deluge of people mad to live in Zeeland was, in the larger picture, just a temporary trickle. Zeelanders had thought they could harness the flow to create a new style of island life, but they succeeded only in diverting it to other islands.

When the islanders finally decided to expand the IGB, it did no good. Few people were eager to move to Zeeland without a job, and prospective businesses were skeptical of the Zeelanders' promise that from now on, the IGB would be expanded to meet job seekers' demand for housing. The business folk muttered to themselves as they walked away from Zeeland officials at trade fairs, "Fool me once, shame on you; fool me twice, shame on me."

I offer this parable with mixed feelings. Portland's has been an interesting social science experiment, and one hates to suggest changes that would stanch the flow of research on the effects of metropolitanwide land use controls. The experiments abroad are hard to read because of the cultural and institutional differences. One of the great things about having 50 more-or-less autonomous states is that we can try experiments in places with a common background of law and politics.

So let Portland be Portland. That's easy to say, since I know it won't choose to be anything else. But for the rest of the nation's metropolitan areas, some caution is warranted. It might be better to see how the Portland experiment plays out, since there is some reason to believe that the downside of Portland's experiment is yet to come, and turning back is hard to do. The enthusiasm with which other areas, such as Seattle and San Jose, are importing the idea of metropolitanwide growth boundaries

should be tempered by the fact that Portland's is a work in progress.

The second reason for my ambivalence about criticizing Portland's plan is that I have been an advocate of the idea that U.S. metropolitan areas are too spread out and that local zoning has contributed to that sprawl (Fischel 1985, chap. 12). My scenario has the suburbs developing only partially and then independently (that is, without the permission of the state or other communities in the metropolitan area) pulling up the gangplank to newcomers. This is accomplished with a host of land use controls that make new housing more costly to build. New development is then pushed either back to the city or still farther out into the countryside. It mostly goes farther out because employment has been shifting to the suburbs.

The economic drawback of this peculiarly American pattern is not so much that there is too much commuting. Commuting times have hardly risen in the past 20 years, largely because employment has followed residences into the far suburbs (Gordon, Kumar, and Richardson 1989). Nor is it the case that the new development does not pay its own way. Nearly all suburbs have in place the planning tools to be sure that development is not a fiscal burden, and, if anything, they use the tools too vigorously. The main problem with suburban zoning is that the overall pattern leaves the metropolitan area insufficiently dense to take advantage of economies of agglomeration.

The proper cure for all this is not to prohibit developers from building in the countryside. It is to prevent the suburbs from imposing unreasonably high standards for building housing in them. By inducing the close-in suburbs to accommodate development that is consistent with early, moderate-density patterns (we're talking quarter-acre lots here), much of the excessive decentralization could be avoided. The question is how to get the suburbs to change their ways.

It is here that Portland appears to be (figuratively) breaking new ground by not being willing (literally) to break new ground outside its urban growth boundary. It uses a metropolitanwide body to order the suburbs to rezone land to accommodate higher-density development—a situation unparalleled in the United States. Other metropolitan federations of local governments have come up with regional plans, but none has required individual municipalities to accept uses or densities they do not want. The Minneapolis–St. Paul area has a program of regional tax sharing (which is still unique after 20 years), but it still allows local

governments to determine what type and density of development they want.

Most statewide land use controls impose a double-veto system. The state can reject projects that local governments want, but it hardly ever forces local governments to accept developments they do not want. The few exceptions—the Massachusetts anti-snob zoning law (Stockman 1992) and the New Jersey Supreme Court's *Mount Laurel* doctrine (Haar 1996)—only tell local governments they have to accept a certain socioeconomic mix of housing. After the proper mix is reached, both allow the local governments to be as exclusive as they want, which does nothing to address the problem of excessively low density development.

As much as I admire Portland's resolve to do something about excessive suburbanization, though, I cannot help but express some skepticism about how it will play out. Because of its current reluctance to extend the urban growth boundary—a reluctance that seems inconsistent with its original rationale of *orderly* suburban growth—metropolitan Portland has to impose density requirements on new development that are entirely out of scale with the size of the city and contrary to the experience of almost all other American metropolitan areas. The extremely high population density that Portland appears to envision as its future is beyond that of all but the largest cities in the United States.

Residents of very large cities put up with high density not because density itself is good, but because high density in those places is productive (Ciccone and Hall 1996). In big cities, the higher productivity of labor results in higher wages and incomes for residents, which offsets the higher price of housing and the other residential disadvantages of high-density living. Portland planners perhaps hope to attract high-wage industries to their high-density city, but they are unlikely to succeed if, as most urban economists believe, economies of agglomeration are achieved not solely by density, but also by the population size of the city (Mills and Hamilton 1994, 20). Herding all half-million Vermonters into a small area to achieve a Manhattan Island density would not make them sufficiently productive to warrant paying them Manhattan wages. Big-city wages prevail because the cities are both dense and large.

My own cure for excessive suburbanization would be to restore the rights of development-minded landowners (Fischel 1995, chap. 9). Many suburban zoning regulations do not conform to a historical standard of "normal behavior." Undeveloped land is

subject to far more stringent standards than earlier developments were, so that much of it is developed at wasteful, estate-like densities. If the landowners who are subject to unreasonable ("supernormal") standards had an enforceable remedy (whether given by the courts or by state legislation), excessive suburbanization would be curbed.

The advantages of this more decentralized remedy for sprawl over the Portland plan are chiefly the same as the advantages of a decentralized market system over a centralized, planned economy. Central planning is problematic because planners cannot possibly acquire sufficient information to rationally balance all demands. Individual landowners have an effective incentive—personal profit—to acquire the information needed to balance present and future demands for their land. By judicious restoration of the rights of landowners, the larger public purpose of a reasonably compact urban area would be achieved at a lower cost.

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