

P L A N N I N G G R O W T H
WHERE WE'RE AT AND WHERE WE'RE GOING

Remarks by

BRUCE K. MacLAURY
President
Federal Reserve Bank of Minneapolis

at the

Annual Dinner
Helena Chamber of Commerce
Helena, Montana

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PLANNING GROWTH: Where We're at and Where We're Going

Sometimes it's hard to tell whether man's ideas are changing rapidly enough to keep up with his changing environment. The pessimists argue that man's technological progress has far outstripped his capacity for devising social organizations to harness his gadgetry for the benefit of mankind. On the contrary, they make a case that we are the slaves of our gadgets rather than their master. At the very least, we have to admit that the evidence is far from clear that man can adapt his ways of thinking and acting to the rapidly changing circumstances in which he finds himself.

And yet there are indications that we are prepared to revise our views, however reluctantly, when confronted with evidence that those views no longer produce the desired results. After all, we pride ourselves on being a results-oriented people, not chained to dogma, and this pragmatism has stood us in good stead in the past. Indeed, the main theme of these remarks is that we are now in the process of revising our views about the need to plan for the future simply because we don't like the results of unplanned growth that we see around us.

It wasn't long ago that growth of almost any sort was by definition good news. An empty land obviously needed people, so population growth was right on. And, who could quarrel with everyone's desire for a higher standard of living -- grabbing for all the gusto one could get. Even such impersonal magnitudes as industrial production or gross national product were a source of joy to headline writers and others whenever their graphs tilted upwards. There wasn't any confusing debate about growth vs. no growth, or ZPG (zero population growth). Today, however, growth is a challenged concept -- it no longer passes muster as automatically good.

To a lesser extent, there has also been some change in our reaction to the word "Planning." It's still a dirty word, of course, in the lexicon of many Americans. In fact, you could almost say that it's anti-American. But still, people are at least beginning to talk about the idea in rational rather than emotional terms, admitting that perhaps in certain situations, planning may have a role.

Now it's not hard to understand how the concept of planning acquired its poor reputation in this country. In the first place, this was by any definition a land of abundance, with enough for all. So what need was there to plan for the future -- the land and its fruits were there for the taking. Similarly, our heritage from Adam Smith taught us that individual initiative, expressed through free enterprise, would lead, as if guided by an invisible hand, to the greatest good for all. There was obviously no need for planning, especially government planning, and that's what planning usually meant. In fact, the same philosophy that decreed that the least government was the best government also held that planning was not just useless and unnecessary, it was absolutely destructive because it infringed on the freedom of the individual and his rights to property, both of which were sacrosanct.

But the very factors that explained, and one could perhaps say justified, our earlier views toward growth and planning also explain why those views are in the process of change.

- . No longer are we impressed solely by the abundance of our resources; instead, we are impressed by their apparent scarcity when measured in terms of the number of years of proven reserves. The energy shortages of

this winter have served to underline this concern in a very concrete way, resulting, I might note, in nearly universal calls for planning a national energy policy.

- . Even if we could count on unlimited supplies of raw materials to feed our appetite for growth, there is a real question as to whether we can successfully deal with the garbage that comes out the other end of the production process. Man, it is said, is the only animal that fouls his own nest.
- . On a different kind of scale, there are some who are bothered by the fact that Americans, who represent 6 percent of the world's population, consume some 40 percent of its energy and resources. A further widening of the gap between rich and poor through rising standards of living among the privileged thus raises moral as well as practical questions.
- . In a similar vein, some people are raising questions as to whether increases in living standards -- beyond some level -- add to the enjoyment of life. Put another way, at what point do we begin to value "things" less and "quality of life" more?

While pondering these questions, we have also been forced to take another look at our views concerning the effectiveness of free enterprise as the organizing principle of our economy. We have recognized for some time

that the pure model of untrammelled competition among small entrepreneurs no longer describes the facts of the United States' economy. As economic power became concentrated in large industries, we reconciled ourselves to government regulation, not as an altogether satisfactory way, but nevertheless a necessary way, to control firms that themselves had gained the power to control markets. In effect, we could no longer rely on the free market system to assure an equitable distribution of the benefits of enterprise.

Similarly, we became increasingly aware that not all the costs to society of particular goods and services were necessarily reflected in their market prices. The classic symbol of what economists refer to as "external diseconomies", that is, costs to society not reflected on the books of a particular firm, is the smokestack, belching large clouds of black smoke, befouling the air around a factory, and raising the cleaning bills of all the neighboring residents. (In this connection, I was amused to see an engraving depicting Billings in the 1880's in which the great symbol of progress was the smoke billowing out of steam engines on the railroads and out of factory chimneys. My impression is that the Billings Chamber of Commerce is no longer using this on its masthead.)

These so-called external costs are not new in our system of market pricing, but they have taken on new significance as we have become more aware not only of the implied misallocation of resources, but more especially of the inequity of letting the polluters avoid the costs of their own pollution. Incidentally, these spillover effects are not limited to the obvious case of the smokestack: they crop up again and again, for example, in effluent discharges into lakes and streams, the costs of traffic congestion and pollution

associated with the use of the automobile, the noise pollution of jets landing and taking off at airports, and indeed the public investment expenditures on roads, sewers, and schools associated with a new development project.

As we become increasingly less tolerant of these imperfections in the market pricing system, we are naturally beginning to search for ways of compensating for such defects. In some instances, this has resulted in the imposition of effluent charges or emissions limitations, as enacted in the recently passed Clean Waters and Clean Air Acts. But it has also meant turning to governmental planning as a supplement to free market pricing in allocating some of our scarce resources.

One of the obvious areas in which the market system has not always produced happy results is in the use of land and real estate. Many other factors than just pricing, of course, have had an influence on land utilization. Certainly not all of the problems of the cities, nor of rural areas for that matter, can be laid on the doorstep of private property rights. But it has been difficult in our system to assert a public interest in particular land uses, and make that interest effective in the face of privately determined land valuations. Indeed, one could argue that governmental regulation and planning in this area have themselves had a perverse effect by assigning responsibility for zoning to the smallest governmental units, and thus insuring a parochial rather than a broader understanding of the public interest.

We could go on naming the changes in circumstances, or our perception of circumstances, that have caused us to rethink our views on growth and its

planning. But the basic fact is that we sense that we are approaching certain limits in the use of resources, and we are in any case increasingly dissatisfied with the results of unplanned growth. The result, therefore, is that we are turning more in desperation than in joy to efforts to model, and then to influence, alternative futures.

As we begin to think about planning growth, and particularly the subject of land usage and population distribution, there may be some consolation in recalling that we are not the first to think about such matters in this country. Perhaps the granddaddy of all land use legislation in the United States was the Homestead Act passed more than a hundred years ago. It is impressive testimony to the far reaching effects of that act that even today our maps in the Upper Midwest display the characteristic checkerboard pattern of the sections of land granted under that act. But recalling the Homestead Act also serves to underline the fact that we are dealing with very different kinds of problems today than were our ancestors in the 1860's. Although we suffer from what many people believe to be a maldistribution of population in the United States today, there are no vast open spaces to be colonized and laid claim to.

If we can point to the Homestead Act as a precedent for our present efforts to grapple with a national growth policy, we must also admit that there has been precious little legislation since that time dealing with this general subject. On the contrary, as I mentioned earlier, most of our land use planning in recent times has been at the local rather than the state or federal levels. A number of problems follow directly from this. For one thing, in the larger cities, there are myriad overlapping jurisdictions of

multiple municipalities, school districts, special purpose districts, and ad hoc authorities. For example, in New York there are more than a thousand overlapping local jurisdictions, and even in the Twin Cities, the number is around 300. It's little wonder in this sort of confusion that planning for growth becomes virtually impossible. In addition, it's a fact that many of the zoning ordinances in large and small towns date from the 1930's and have had only patchwork changes since that date. In view of the way the world has changed in the last 40 years, it isn't difficult to understand how antiquated these ordinances in many instances have become.

It's quite true, of course, that legislation and decisions at higher levels of government than the local unit have had an important impact on population patterns in the United States. One need cite only the decisions on highway location, or train or bus service, or location of public facilities such as schools and colleges, to appreciate their impact on where you and I might choose to live. Yet if anything, the uncoordinated and frequently unconscious impact of these decisions on settlement patterns has only served to compound confusion rather than contribute toward a rational growth pattern.

In the face of a clearly felt need, therefore, the federal government has been wrestling with the problem of trying to devise a national growth policy. In 1970, for example, the National Goals Research Staff produced a report called "Toward Balanced Growth". The report traces population movements over recent decades, and cites the familiar problems created by out-migration from many rural areas, and overconcentration of population in a few urban regions. It then discusses three alternative strategies which might foster "more balanced" national growth: first, the development of sparsely populated

rural areas, second, the promotion of existing small cities and towns in non-metropolitan areas, and third, the creation of new towns outside of present metropolitan areas.

With respect to rural development, the report had this to say:

"Although economic vitality can be provided in some rural areas through industries that do not require economies of scale or an urban location -- such as tourism and recreation -- the prevailing view among economists is that efforts to promote self-sustained growth in sparsely populated areas are doomed from the start."

Despite this rather pessimistic conclusion, it's interesting to note that the Congress, in the Agricultural Act passed that same year, 1970, made the following declaration of intent:

"The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity and welfare of all of our citizens that the higher priority must be given to the revitalization and development of rural areas."

This statement of intent was then given considerably greater clout with the passage of the Rural Development Act last year. In that act, the Congress authorized new lending and guaranteeing authority for loans in rural areas amounting to about \$1.3 billion in the first year, and as much as \$7.3 billion outstanding within five years. It's significant that the new programs

authorized by the act, except for business and industrial loans and grants, will be confined to towns of 10,000 or less, with preference given to those of 5,500 or less. The top limit for the business and industry program is 50,000, and towns of 25,000 or less will be given preference.

For better or worse, my own views on the desirability of using public funds to bring industry to the countryside are already on record, and coincide with those of most of my fellow economists. Although there will be notable exceptions to which one can point with pride, my own belief is that this particular strategy is not likely to have widespread success.

The second alternative discussed in the report on balanced growth was the promotion of selected small cities and towns as growth centers. Without making a clear-cut recommendation, the report seemed to favor this approach, and I too happen to believe that the growth center strategy holds the greatest promise for development in this district. By concentrating our public expenditures on a relatively small number of proven growth centers, my feeling is that we will get the biggest bang for our buck, and help the surrounding rural areas more than if we tried to spread the money around more evenly, even though the latter strategy would be politically much easier.

While this so-called growth center approach seems to make sense for this region, it may not be a solution for the country as a whole. To quote from an article by John Friedman:

"Suppose we managed (through public subsidies) to raise the growth of ten cities having 100,000 population each from 2 to 4 percent per year,

maintaining the current growth rate of 2 percent for a metropolitan region of 10 million. Then, at the end of a generation, the group of ten cities would have absorbed an additional 3 million population, but metropolis an additional 10 million ... Of the total growth of 13 million, metropolis would have (had to) absorb fully three-quarters."

Friedman concludes from this kind of arithmetic that "the only viable alternative is to formulate national policies that will make existing major population concentrations -- megalopolis -- more livable."

Making cities more livable is also the key concept behind the push for experimental cities, the third approach discussed in the report. The argument here is that we need to start with a clean slate, free from the constricting overburden of laws, regulations, and customs that inhibit experimentation in our existing cities. Proponents of such experiments believe it's impossible to redesign man to conform to existing urban patterns, and that our only hope lies therefore in designing cities to meet human needs. The logic of this line of reasoning is very appealing, but the cost of starting fresh is very appalling. Yet we shouldn't dismiss the idea on the basis of costs alone. As a nation, we can certainly afford one or two or three such experiments in the hope that they will tell us something about redesigning our existing metropolitan areas. Even the proponents of these new cities make no claim that they can themselves absorb the population growth of the United States.

One of the intriguing ideas that has come up in conjunction with

discussions about experimental cities is the concept of public land ownership within the city limits. Rather than sell the land acquired through public bonding, the city corporation would lease parcels for industrial development or residential sites on a long-term basis. This would permit profitable private development and home ownership, while at the same time insuring that the city had an option once every, say, fifty years to reconsider land use requirements without having to pay the price for appreciated land values in order to make changes.

This type of arrangement may sound to some like an anti-capitalist plot, but the problems involved with setting aside green belts, park areas, utility rights-of-way, and other public land requirements under our present system should cause us not to dismiss the idea out of hand. Indeed, it is already being tried in a number of cities in connection with urban redevelopment projects, is incorporated in leasing arrangements by the Mormon church, and is prevalent in Hawaii, I understand. The fact is that land values frequently rise or fall with public improvements, or deterioration of public facilities. It does not seem unreasonable therefore that the general public should benefit from the change in land values associated with public improvements, whether they be urban renewal or the starting of a new city.

Another recent discussion of national growth patterns and policies appeared in the President's "Report on National Growth 1972". This report also provides a useful summary of population growth patterns and problems, and federal and state efforts to influence these patterns. But when it comes to the discussion of a national growth policy, one finds

instead of an articulated policy, a list of the problems and obstacles to the development of such a policy. And quite frankly, the more I've thought about the need for policies on growth and land use, the more I've been forced to the conclusion that the best we can do is define the appropriate level of government to formulate policies to meet different needs. I'm afraid that a "national growth policy", however alluring in principle, is a will-of-the-wisp which we will chase without ever catching. Others who have come to the same conclusion put it this way:

"Our political system may not permit the luxury of specifying national goals in the face of our size and diversity Inconsistent and conflicting goals may (in fact) be less divisive and damaging than the penalties which accrue by specifying a single set of nationally defined goals and purposes."

"Formulation of any one 'national urban strategy' or 'national land use policy' is neither likely nor desirable. It is not likely both because of our diffused decision-making structure and because the necessary preconditions for real alternatives to peripheral sprawl do not yet exist. It is not desirable because diversity both within and among metropolitan areas makes a multiplicity of 'urban strategies' better than just one."

The absence of a single federal land use policy does not mean that we at the local level can sit back and enjoy things as they are. My own impression is that the coming Congress will pass legislation along the lines of previously introduced land use bills that will provide strong inducements for states to develop their own land use policies. One doesn't have to be a

wholehearted subscriber to the "New Federalism" to believe that this sort of inducement to local planning is in the interests of all.

The Federal land use bills, as they stood when the last Congress adjourned, would require states to prepare an inventory of land and natural resources, project land use needs, provide for public hearings and participation in the planning process, and so on. The bills would also require the state to identify and exercise "determinative state authority" over the use and development of land for "key facilities", such as airports, major highway interchanges, recreational facilities, and power plants; for "large scale development" that presents issues of more than local significance; and over the use and development of land in "areas of critical environmental concern", such as shorelands and flood plains, etc. There are a number of other provisions in the bills, such as providing for regulation of large scale subdivisions, that clearly indicate that the Congress is serious about land use planning. It's still an open question, of course, as to whether, and in what form, a bill will finally pass the Congress. But it's not too early for states to begin thinking about how they might react to this type of legislation.

The fact is, of course, that many states are not waiting at all. Within the last few years, we have seen a number of states take large strides in the direction of land use planning. In 1969, for example, Oregon and Maine joined Hawaii in establishing state-wide zoning. A number of states have taken steps to control development in environmentally sensitive areas such as wetlands, ocean fronts, lakeshores, and so on. Vermont in 1970 enacted a new land use law which authorized the state to control development at areas above 2500 feet elevation, and to control all large-scale development.

Last November, Californians passed Proposition 20 setting up state and regional conservation commissions to draw up plans for orderly coastal development, while limiting new construction until the blueprint is completed. On an interstate level, a master zoning authority has been set up for the Lake Tahoe region. That authority intends to limit population to some 280,000 or only a few more than the present level of occupancy, compared with a projected total population of some 700,000 were there to be no coordinated zoning ordinance.

One could go on citing examples of the movement in the direction of planning growth. In many states, regional planning commissions have been authorized either at the county or multi-county level, again with the purpose of planning growth. At the same time, it's also clear that there does not exist one universally applicable or clearly superior strategy for planning growth. All of the efforts to date must be considered in the way of experiments. In many ways, the states in the Ninth Federal Reserve District are fortunate in having time to formulate plans for their future without having to face the kinds of crises that seem to afflict the metropolitan areas on the East and West Coasts. We should take advantage of this time to plan well. As I said at the outset, I have no illusions that planning comes easy, or that the very concept is palatable to residents of a region whose heritage is one of strong independence. Yet I believe we are coming to recognize that the costs of failure to plan fall not on ourselves, but on our children, and are too high a price to pay for our own temporary "freedom".

One note of caution in closing. A key element in spurring efforts around the country to begin planning for growth has been the increasing concern

about the environment in which we live, and its degradation through wasteful practices and policies. I believe that there is an equal danger that we overreact to these environmental concerns, and try to plan for no growth rather than for rational growth. The current concern about energy resources is a case in point. My own belief is that there is much we can do to curb the rate of growth in our energy requirements. But at the same time, I think it is foolhardy to expect that we can frustrate the plans of those providing power in the name of a 100% pollution-free environment. We will have to make compromises, just as we have made them in the past. Hopefully, however, those compromises will reflect a much more acute awareness of the costs we may be inflicting on our successors here on earth.