The Three Myths of Growth

by Eben V. Fodor

Do we need more growth, or less? Most people agree that growth has negative effects on public safety, sense of community, environmental quality, and on traffic congestion and mobility. A significant tradeoff, however, seems to be the improved employment opportunities that most feel are created by growth.

Growth proponents say growth produces jobs and economic prosperity. They say growth builds the tax base, providing needed public revenues. And, given these benefits, proponents advocate that we should actively pursue growth using economic-development programs, tax subsidies for business, and other means.

Each year, the State of Oregon spends hundreds of millions of dollars in economic development funds and hundreds of millions more for public infrastructure to support and encourage growth. As a rough estimate, these growth subsidies amount to an annual cost in excess of $400 per year for every taxpayer in the state.

With so much at stake, it is important to take a more critical look at the claims in support of growth:

Does growth reduce unemployment?

We all know intuitively that growth generally creates new jobs. But the real question is whether it reduces unemployment.

Presumably, if growth reduced unemployment, a fast-growing city would typically have a lower unemployment rate than a slow-growing city. To test this, Professor Harvey Molotch of the University of California, Santa Barbara, examined two decades of census data on city growth rates and unemployment. He compared the 25 fastest growing cities in the United States with the 25 slowest growing cities in terms of unemployment.

Surprisingly, he found no statistical correlation between growth rate and unemployment rate. Faster-growing cities are undoubtedly creating new jobs, but it seems that they are also attracting new residents who don't find jobs. Thus the fast-growing city ends up being a bigger city —but with a similar unemployment rate, and a larger number of unemployed people. **1**.

Molotch's study shows that we can't grow our way out of local unemployment problems. Economic booms may provide temporary relief from unemployment woes, but the statistics clearly indicate that growth is not the long-term solution to unemployment.

Does growth build up the tax base, providing needed revenues?

We hear that the more people and businesses we attract to our communities, the more tax revenue we will have. Supposedly this will enable us to get more public services, or pay for a new library or concert hall we couldn't have afforded otherwise, without increasing our individual tax burden.

The facts don't support these arguments. While growth does increase the tax base, it does so at a substantial cost to taxpayers.

The first piece of evidence is that larger cities consistently have higher per capita taxes. **2**. If we are to believe the empirical data, becoming a larger city is thus unlikely to reduce tax burdens.

Could growth provide a temporary tax windfall? — a brief infusion of tax money that helps the community? Again, the evidence suggest otherwise. Take the case of Springfield, Oregon, in the 1970s. A study done by Springfield's Planning Department shows that a decade of rapid growth (1971-1981) left Springfield's municipal funding decimated. Total municipal spending quadrupled (in constant dollars) over this period. Total indebtedness also quadrupled to pay for new bond issues. But perhaps most telling, per capita spending tripled. **3**.

The lesson is that growth creates costs. New development requires public infrastructure in the form of roads, sewers, water, electricity, schools, parks, police, fire protection, and other services. If new development does not pay the full cost of its impact on the community, then the public ends up subsidizing growth. Public funds are depleted and taxes go up.

Many of Oregon's communities collect "system development charges," but these fees are considerably less than the actual cost of the public infrastructure required to serve the development. For example, the City of Eugene collects about $2,000 in impact fees for a new single family home. However, conservative estimates of the actual cost of public infrastructure to support new development is in excess of $20,000 per new home. **4**.

Does a good business climate help?

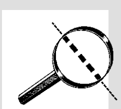
A "good business climate" roughly translates to one with less government regulation, lower taxes, and a higher level of business subsidies.

A study by Dr. William R. Freudenburg, of the University of Wisconsin, evaluates how well business-climate ratings predict the prosperity of the people living in those areas. **5**. Using the three best known business climate ratings (*Inc. Magazine*, the U.S. Chamber of Commerce, and the Fantus Co.), Freudenburg compared the performance of each state five and ten years after its rating.

The results are shocking. States with "good" business climate ratings actually had worse economic outcomes than the states with "bad" business climates. People in the states with the worst business climate ratings experienced $585 to $1100 more growth in per capita income after five years than did top-ranked states. The disparity was even greater after ten years.

While all the impacts of growth are not negative, it is clear that growth can have a predominantly negative fiscal impact on a community. A greater understanding of the real costs and benefits of growth is essential to resolving the growth controversy. ◆

Eben Fodor is a planning consultant and President of Friends of Eugene, a non-profit organization working to promote community sustainability. He is currently researching the fiscal impacts of growth on communities. You can reach him at Energy & Environmental Planning Associates, 394 East 32nd Ave., Eugene, OR 97405, or e-mail to fodor@efn.org. His column is a modified version of an article that appeared in The Oregonian newspaper.



References:

1. Harvey Molotch, "The City as a Growth Machine: Toward a Political Economy of Place," *American Journal of Sociology*, 82.2 (1976).

2. Thomas Black and Rita Curtis, "The Local Fiscal Effects of Growth & Commercial Development Over Time," *Urban Land* (January 1993): 19.

3. Springfield Planning Department, The Cost of Growth: 1971-1981. (225 5th St., Springfield, OR 97477; 503-726-3778).

4. James C. Nicholas, *A Practitioner's Guide to Development Impact Fees* (Chicago: American Planning Association Press, 1991) 1. [Note: Nicholas' infrastructure cost estimate is not based on Oregon communities, though it is unlikely that there would be major differences].

5. William R. Freudenburg, "A Good Business Climate as Bad Economic News?" *Society and Natural Resources* 3 (1990): 313-331.