Rethinking Cost in Population Settlement Patterns

by A. Allan Schmid

Why should the majority of people living in metropolitan areas care about rural development? Aside from the traditional concern about poverty and charitable concerns for more equal access to the good life, might there be a reason based on self interest? Do metropolitan residents suffer any consequences stemming from the relative inability of rural areas to attract economic development? Is further concentration of economic activity in metropolitan areas in the best interests of the people who live there?

Metro dwellers are well aware of the many costs associated with urban congestion and much money is spent to alleviate problems, but most cities are hard-pressed to attack underlying causes. Occasionally, a suburb will try a slow-growth policy limiting rezoning or building permits, but too often this does little more than a finger in a crumbling dike to stem the flow. Rural areas, for their part, try to attract industry through various subsidies and tax breaks. The federal government, likewise, has attempted to lure economic activity to non-metro areas. Success has been minimal and piecemeal. We don't really know what it would take to change settlement and economic location patterns, but it appears to be more than most public budgets can afford.

We need a better accounting framework.

If the total cost of congestion were computed and charged to firms who are relocating or expanding, would firms still choose to locate in metropolitan areas? To make informed policy decisions regarding settlement patterns it is necessary to compare the rising costs of metro congestion with the disadvantages which plague non-metro areas. If firms save money by locating in metro areas, how large is the savings compared with the congestion costs that expansion creates? How much larger does a non-metro area have to be before firms supplying inputs to relocating businesses are large enough to be competitive with metro areas? Is this point reached before the non-metro area suffers diseconomies in provision of public services?

Consider the following typical scenario. Driving into Detroit on Interstate 696 you pass through rapidly growing suburbs and counties that surround the declining central city. The number of new gleaming office towers strung out along the interstate are impressive, but there are a number of consequences to this pattern of development. The capacity of the interstate as originally built is inadequate and is now being expanded at great cost. Some predict that by the time the expansion is complete, interim growth will require yet another expansion. The local feeder roads are grossly inadequate. A proposal for a special county tax on auto registration to finance local road improvements was voted down by residents in spite of near gridlock conditions. Detroit's metropolitan area has significantly higher housing costs than non-metro areas. The long commutes may create stress on mental health and family relationships.

Metro Detroit is experiencing rising costs in water supply, sewage treatment, storm drains, and solid waste disposal. Solid waste disposal sites are increasingly hard to find and further away, again increasing costs because of the long hauls. A newly built solid waste incinerator may never operate because it cannot run without exceeding air quality standards for toxic emissions.

Many firms considering location and expansion do not consider the total external cost of their decision. They look at firm costs and revenues, certainly, and as a result see the continued advantage of metro locations. Some firms have moved out of the New York area to suburban Washington, D.C., for instance, because costs are cheaper despite the fact that Washington is itself a high cost area. But would they relocate to Washington, D.C., a less-expensive but still a metro area—if they considered all the costs of the move both on employees and on the infrastructure of the people who already live there?

In addition to production cost considerations, firms must also consider household preferences. Many families now are attracted to metro areas because of social, service, shopping, and cultural advantages in addition to jobs. But at what point are those amenities offset by urban congestion? Mt. Pleasant, Michigan, a university town of 23,000, does not have some of the cultural attractions of the Detroit area. How large would it have to be before its attractiveness as a place to live could successfully compete in the eyes of some people—recognizing that people have different tastes and values for lifestyle components.

The down side of redirecting growth may be that some folks already in Mt. Pleasant might not want urban growth and shiny office towers. Some planners and citizens believe the best growth pattern, both economically and environmentally, is to keep growth in hi-density areas. But then not all non-metro areas of the country need to grow.

To sum up, if several of the office towers along Detroit's Interstate 696 had been built in Mt. Pleasant, would many of the people in both areas have been better off? To answer this question, we need a better accounting framework to include the costs of production and marketing for businesses, costs of public infrastructure including roads, water and waste management, cost of commuting and housing, and availability of consumer and cultural amenities associated with alternative population settlement patterns. Perhaps this kind of all-inclusive cost accounting for business growth and development could shed light on the controversial issue of how and where to direct growth for a better quality of life for more people. C

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