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# The Economic Case for State Land Use Decision-Making

**Stephan J. Goetz**

*The Northeast Regional Center for Rural Development; Pennsylvania State University - USA*

Although all land use is local, few problems require the more urgent attention of state legislators than that of land use. How land is used has important economic, social and environmental consequences that may affect all residents of a state. States must take on more active roles as coordinators and conveners in the arena of land use planning if they are to address the challenges of growth, development and environmental protection in urban and rural areas. In so doing, they have to tread cautiously and thoughtfully given the historically entrenched bias towards local control of land use decisions and the potential for inter-governmental distrust and animosity (Nicholas 1999).

## The Issue

Over the next 25 years, close to 60 million new housing units will need to be constructed to meet the housing demands of the 94 million new residents forecast to live in the United States by then (Nelson 2004). Along with a larger population, growing incomes and societal preferences for smaller households will reinforce the higher demand for new homes (Katz 2002), leading to more land conversion for development purposes.

Where those new homes are constructed will have important economic, social and environmental consequences (Marshall and Shortle 2005; Deller 2005; Stedman 2005; and Goetz 2005). Each state must recognize that this new housing and residential development will help determine the future quality of life of its residents, its economic growth prospects, and its attractiveness to domestic migrants and foreign immigrants. State and local governments across the U.S. must weigh carefully the benefits and costs of alternative land use patterns associated with residential construction because they are largely irreversible.

Given the anticipated increase in demand for homes, and the fact that housing is already scarce in

certain areas, the question of housing affordability becomes pressing, in some states more so than in others. Affordability refers to the cost of housing in a state relative to the income of the state's residents. It is an important leverage point for state social and economic policy. One way of keeping the cost of land and housing low is to push development into less densely-settled rural areas, often on the urban fringe. However, that increases environmental or ecological impacts. Cho et al. (2006, p.299) summarize the dilemma as follows: "While the trend toward lower housing density may offer affordable private spaces set back from streets and commercial areas, it also takes a toll on open space and environmental amenities."

Figure 1 shows the basic trade-off between housing affordability and population density, or the degree to which the population is spreading out ("sprawling"). Population density is measured as the number of residents per square mile in each state in 2000. The most densely and least densely settled states are omitted as outliers (Alaska with 1.1 residents per square mile and Washington, D.C., with 9,316 per square mile). The smaller the density, the more the population of a state is spread out (i.e., the fewer the number of people per unit of land). Housing affordability is calculated as the share of homeowners for whom selected monthly homeowner costs in 2003 were less than 20 percent of their income in the past 12 months. The higher this share, the greater is the housing affordability in a state. Obviously, density is not the only factor that affects the cost of land and housing affordability in a state. Zoning regulations also matter (see, for example, Glaeser and Gyourko 2002), but the graphic makes clear that density is an important factor.

Rural areas are in an especially precarious position as urban areas expand in response to population growth. First, new housing development for various

reasons tends to be located in rural areas. In particular, “the search for more affordable housing by low- and middle-income families creates demand in the far reaches of metropolitan areas, often in undeveloped areas better suited to agriculture, conservation uses, or recreation and tourism” (National Governor’s Association, undated). On the other hand, the local property tax increases that often accompany the increased demand for public services from higher-income newcomers can pose problems for long-time residents liv-

ing on fixed incomes, a process known as “gentrification.”

Second, rural areas generally lack the population and tax base needed to employ professional long-term staffs to deal effectively with land use-related issues, although this also can be a concern at the state-level when insufficient resources are made available for land use planning purposes. This is discussed in more detail in the next section.

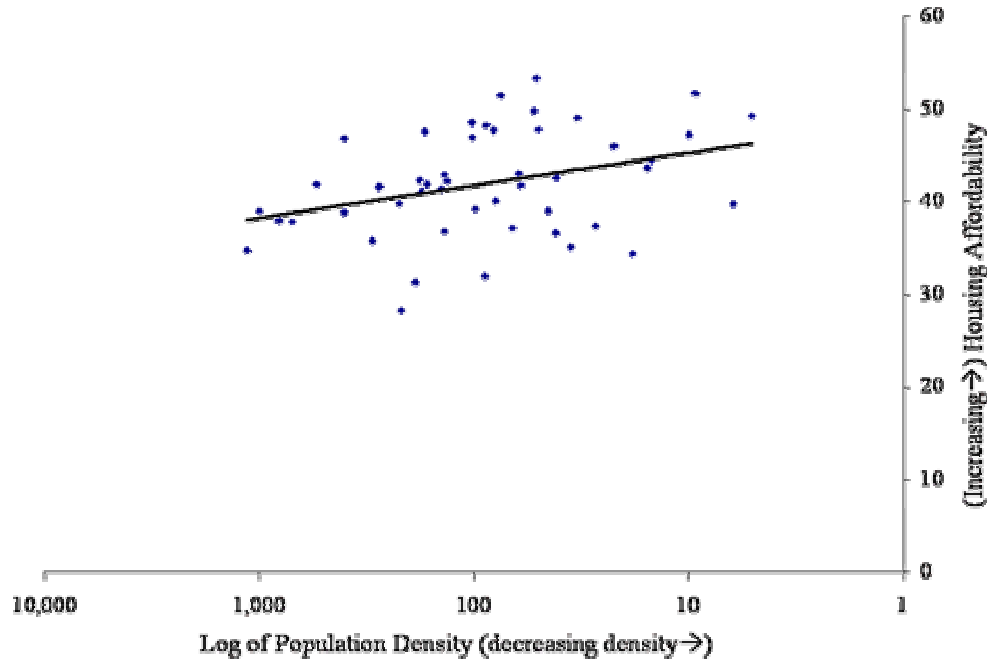


Figure 1. Tradeoff between housing affordability and population density

### Rationale for a State Role in Land Use

There are several reasons why state governments are justified in playing a role in land use planning and decision making. The first is that even though “all land use is local,” only state government has the broader geographic and spatial perspective necessary to guide the development of new land into appropriate areas effectively. Most economic, social and environmental processes do not stop at county borders, creating externalities for adjacent communities. For example, air pollution from factory emissions or runoff of pesticides from suburban homes into waterways often affects neighboring jurisdictions. Workers commute across county lines and ecological areas such as watersheds follow natural rather than administrative boundaries. Competition among county and municipi-

pal governments for economic and housing development has been shown to contribute to “leap-frogging” land conversion, which creates its own set of problems (Marshall and Shortle 2005, Deller 2005).

Many processes do not stop at state lines either. For example, relatively low-cost new housing development in the Poconos Region of Eastern Pennsylvania attracts residents from Manhattan, New York. When those new homeowners commute back and forth to their jobs in New York City along Interstate I-80, New Jersey residents face more traffic congestion and pollution. When counties in northern Maryland suspend new housing development because of water shortages, the resulting unmet housing demand is pushed into south-central Pennsylvania, which is dealing with its own land development problems (Collins

and Goetz 2005). In such cases, policy coordination needs to occur at the state rather than county level.

The second rationale for state involvement in the area of land use is economies of scale in the provision of public services. For example, more than three-quarters of decisions made by local governments are estimated to involve some dimension of space. However, it is not cost effective for each county to have its own Geographic Information Systems (GIS) unit to carry out the necessary analyses. The state is better-equipped to provide this service as a valuable tool in land use planning, as demonstrated in the next section.

A final reason why land use concerns need to be addressed in some capacity at the state level is that multiple state agencies, which sometimes work at cross-purposes, both affect and are affected by land use decisions. Because these agencies have state-wide mandates by definition, it is usually impossible for an individual county to work with each of them in a manner that leads to a coordinated outcome. A recent *Issue Brief* from the National Governor's Association shows how states can integrate affordable housing with state development policy. Since housing affordability is not independent of population density (Figure 1), and density depends on how land is used as well as state economic growth policy, another rationale is created for state involvement, however benign, in local land use decision-making and planning.

The great diversity of agencies involved in some aspect of land use is illustrated by the inter-agency coordination effort within New Jersey's state planning commission. That effort includes the departments of Agriculture, Education, Transportation, Community Affairs, Environmental Protection and Treasury; the New Jersey Board of Public Utilities; the Economic Development Authority; the Transit, Commerce and Economic Growth Commission; and the School Construction Corporation (State of New Jersey 2006). Clearly, it would be cost prohibitive, and perhaps impossible, for a single unit of county or municipal government to work effectively in an independent fashion with such a diverse and large number of agencies. Numerous other examples of how state agencies coordinate to achieve economic development objectives, for example in the areas of environment, transportation, housing and energy, are provided in the National Governor's Association *Issue Brief* (no date). Remarkably, nearly all of the decisions involved both depend on and affect land use, but this fact is rarely if ever explicitly acknowledged or recognized in policy statements or documents.

## Directions for States' Roles

One of the most important questions facing public decision-makers is how the land of a region is used to the benefit of its residents. The tools of benefit-cost analysis are employed to enumerate and place values on all of the positive and negative economic, social and environmental consequences of alternative land development paths. Once the net benefits have been calculated, the development path that yields the highest net benefit is chosen.

It is the state's role not only to ensure that relevant spillover effects across county-lines are included in the calculation, but also that "non-market" outcomes or factors such as externalities are valued. More specifically, because these goods are not traded in markets they have no easily observed prices. Economists have developed methods of valuing such goods so that they can be included in benefit-cost analyses (for caveats about using the methods, see Abler 2005).

More generally, the state's role can be described as one of convener and coordinator. Given the many diverse and conflicting interests that surround land use issues (including, for example, homebuilders, homeowners, housing coalitions, environmentalists, transportation planners) it is essential for one entity with broader perspectives and powers of law as well as persuasion to assume leadership in convening different parties and coordinating their actions.

The State of New Jersey again serves to illustrate a state's role in land use decision-making, specifically, in providing a coordinating forum for exchanges. The state balances multiple objectives, including the twin goals of ensuring housing affordability while protecting the natural environment for future generations (State of New Jersey 2006). It has crafted a state plan with the purpose to:

*"Coordinate planning activities and establish State-wide planning objectives in the following areas: land use, housing, economic development, transportation, natural resource conservation, agriculture and farmland retention, recreation, urban and suburban redevelopment, historic preservation, public facilities and services, and intergovernmental coordination "*

(N.J.S.A. 52:18A-200(f)).

This quotation also illustrates the tremendous complexity and inter-connectedness of issues related to how land is used in a densely-settled, highly developed state.

To implement the plan, New Jersey analyzed economic, social and environmental factors to designate three major planning areas within the state, including areas for growth; areas for limited growth; and areas for conservation. Each of the three areas, in turn, has a number of planning sub-areas, for a total of seven. Likewise, the State of Maryland has developed Priority Funding Areas into which it seeks to direct future development (State of Maryland 2006). A key concern in that state is the disappearance of farmland and natural habitats on the one hand, and the haphazard pattern of development whereby some regions experience extreme congestion and other parts of the state are abandoned, on the other. The high-amenity coastal areas, in particular, have severe housing shortages.

The conflict implicit in Figure 1 between a desire to preserve farmland and other working landscapes, on the one hand, and to provide affordable housing by developing less densely settled areas, on the other, provides another illustration of why states need to be involved in land use decisions. Generally, farmland and greenspace preservation are state- rather than county-level mandates. Furthermore, in order for farms to operate profitably, and have adequate access to input supplies and output markets, a minimum threshold number or acreage of farms may be needed in an area.<sup>1</sup> Nevertheless, achieving greenspace preservation that is both economically and ecologically meaningful is likely to be much more easily and cost-effectively accomplished through state-level coordination than on a piecemeal county-by-county basis.

## Summary

The case for the economic approach to land use decision-making at the state-level is compelling. Yet it is important not to limit the analysis only to economic objectives. Humans also are social creatures and many want their fellow citizens to meet basic needs of food, shelter and clothing. Humans also value the natural environment even though these preferences often cannot be articulated through market forces. Thus, social and environmental preferences need to be considered along with purely economic values. Furthermore, as illustrated above, state government is an appropriate decision-making unit for land use, even though land use is always embedded in a particular locality, i.e., at a smaller level of government. Important reasons for this include economies of scale that

can only be achieved at the state level and the presence of spillover effects that do not stop at county borders and therefore cannot effectively be addressed by county government acting alone.

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<sup>1</sup> Lynch (2006), however, fails to find clear support for this conjecture and argues that states must develop additional policies beyond preservation to protect farmers.

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