SOCOLOW PHOTOGRAPHY

Editor's Note: Wendell Cox, a nationally and internationally recognized expert on sprawl, smart growth, government consolidation, and transportation, will write a regular column for the *Township News* starting with this issue.

PSATS commissioned Cox to determine and report on whether there was any correlation between Pennsylvania's economic woes and the state's local government structure, as claimed in the Brookings Institution's report, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania*. Cox's research demonstrates that bigger government isn't necessarily better government, mergers and consolidations won't solve Pennsylvania's economic problems, and Pennsylvanians are choosing the township way of life for a reason.

In this first column, Cox takes a look at how the suburbs transformed the American lifestyle and ultimately contributed to the country's prosperity.

How the Suburbs Made Us Rich

BY **WENDELL COX** / AUTHOR, *GROWTH, ECONOMIC DEVELOPMENT, AND LOCAL GOVERNMENT STRUCTURE IN PENNSYLVANIA*

Poverty dominates economic history. This may not seem obvious from a 2006 perspective. However, not long ago, the nation was considerably less affluent than it is today. Just before World War II, U.S. annual incomes *(adjusted for inflation)* were 75 percent lower than they are now. Per capita income was near the current poverty threshold. Western Europe also lived near that threshold, and Japan lived well below it *(western Europe and Japan are mentioned to counter the prevalent myth that suburbs and cars are important only in the United States)*.

However, since that time, the high-income world — principally made up of the United States, western Europe, Japan, Canada, and Australia — has enjoyed unprecedented and widely distributed economic growth.

Democratizing prosperity

This is not to suggest that there is no affluence in less developed nations, such as Brazil, Mexico, Nigeria, or Indonesia. Every nation has its rich. The difference is that high-income nations have comparatively little poverty, with the majority of people living in relative comfort. In the high-income nations, there has been a "democratization of prosperity."

What accounts for the rise of incomes and greater distribution of affluence?

Of course, technological advances have contributed to the higher standard of living, but advanced technology is not limited to the high-income world. Advanced technology can be found in all nations, rich and poor. Television antennae and even satellite dishes protrude from the poverty-stricken favelas *(shantytowns)* of Sao Paulo, Brazil, and other cities in the lower-income world.

The most fundamental factor is legal and economic structures. Research by the Heritage Foundation and the Fraser Institute makes it clear that affluence occurs where there is economic freedom. Generally, where there is more economic freedom, there is greater affluence.

Economic freedom, of course, requires rule of law. Peruvian economist Hernando DeSoto attributes the widespread poverty of Latin America to

Urban-growth boundaries create a **scarcity** of land for homes, and, as Economics 101 tells us, scarcity **raises prices.**

Without the Levittowns, our parents and grandparents would have paid rent most of their lives, and the equity that so much of the American Dream depends on would simply not have developed. There would have been fewer second mortgages, fewer new business startups, and fewer kids *(such as urban planning students)* going to college.

the absence of a legal framework that makes property secure. Where a large share of households is trapped in poverty, it is a fair bet that there is little economic freedom and that the rule of law is weak or even nonexistent.

Property is a principle of wealth creation. If it is more widely dispersed, there will be more widely dispersed affluence. This is the paramount economic accomplishment of the high-income world. Throughout the middle and late 20th century, property ownership became widely dispersed, principally through home ownership.

Democratizing ownership

Today, most households have a personal stake in the economy through home ownership. At the beginning of World War II, less than 45 percent of U.S. households owned their own homes. Today, the number is now approaching 70 percent. Similar increases have occurred in other high-income countries.

Home ownership is an effective means of widely distributing wealth. With every mortgage payment, the household not only pays the bank but also itself. This is because part of the house payment is investment — the equity that is built up in the house. The household forced to pay rent is unable to invest any of its housing payment. It all goes instead to the landlord.

It seems clear that if the nation had continued to have a home ownership rate of 40 percent, middle-America would have considerably less wealth than it does today. The same goes for middle-Canada and middle-Europe. It is not surprising that nearly one-half of the total household equity in the United States, Canada, and Australia is in home equity.

How is it that home ownership has spread so widely? The principal reason is suburbanization: what critics pejoratively call "urban sprawl." At the same time that households were becoming more affluent, suburbs sprouted up around all the cities in the United States, western Europe, Japan, Canada, and Australia. This is more than coincidence.

The new suburban housing was affordable because it was built on less expensive land by builders able to take advantage of scale economies from larger projects. There is a popular view that these suburbs were populated by people who fled the inner cities. That is true only to a limited extent. Even in the old industrial cities of the East and Midwest, more than 70 percent of new urban residents were from outside. Millions of people were moving from small towns and rural areas to take advantage of the economic opportunities that existed only in the larger urban areas.

Democratizing mobility

However, inexpensive land and affordable housing were only part of the equation. Inexpensive and effective personal transportation — the personal automobile — also played an important role.

Before the car, urban residents depended on walking and transit, which took longer. Much of the urban area was beyond practical reach for people by transit because of fixed schedules, slow speeds, congestion on street car lines, and the need to transfer from one line to another to get anywhere but downtown. However, the car changed everything, making it possible to travel throughout the urban area far more quickly and less expensively than before.

Transit limited where people could go and when they could go. The car liberated people to go where they wanted when they wanted. This democratization of mobility contributed substantially to the democratization of prosperity.

The car allowed people to have more jobs from which to choose and more employees for employers to choose from. As a result, the car made labor markets more efficient, improving economic output. This translates into more income for more people. University of Paris research by Remy Prud'homme and Chong-Wong Lee shows that as the percentage of jobs that can be accessed in a fixed time increases, the economic output of an urban area increases by a factor of 1.18. In other

WENDELL COX: SUBURBS

words, if 10 percent more jobs can be reached in 30 minutes, economic performance will be 11.8 percent greater.

The draw of personal mobility is so compelling that western Europeans have been using cars far more frequently than transit for decades, despite gasoline prices near or above $5 per gallon.

Beyond superior labor productivity, people could now travel throughout the urban area to shop for more merchandise and lower prices. This meant that retailers were forced to compete with one another over large geographic areas, no longer able to rely on local markets in which people had little choice. The corner grocery store could no longer extract its higher prices and largely disappeared from urban areas. Whether in western Europe or the United States, the higher-cost small neighborhood stores are generally limited to parts of the urban area with captive markets, where a substantial share of people do not have access to cars and thus have more limited shopping choices.

The campaign against prosperity

All of this may come as a surprise to the urban planning elites, who have concocted illusions to the contrary. Despite the strong association between cars, home ownership, and prosperity, they would slow down traffic and drive housing prices up, depriving many of home ownership.

The typical strategies are urban-growth boundaries, outside of which development cannot occur and transportation money can be spent on anything but what works. Urban-growth boundaries create a scarcity of land for homes, and, as Economics 101 tells us, scarcity raises prices. As a result, there is the "housing bubble" that has afflicted California, Florida, Portland, Denver, Australia, New Zealand, and other places where land has been rationed but has eluded Pennsylvania, Atlanta, Dallas-Fort Worth, and Houston, where land has not been rationed. The anti-suburban ideology favors urban rail systems that cost more than leasing a car for every new passenger, hoping to attract people away from increasingly crowded roads, even if they're not going where the trains are going.

If today's anti-suburban policies had been in place at the end of World War II, it would have been illegal to build Levittowns, whether in Pennsylvania, New York, or the myriad other places where similar communities were developed. Any household wanting to own its own home would have been forced to buy in an overheated urban environment with much higher prices and smaller homes. Home ownership would have been lower, and the nation would have been poorer.

Without the Levittowns, our parents and grandparents would have paid rent most of their lives, and the equity that so much of the American Dream depends on would simply not have developed. There would have been fewer second mortgages, fewer new business startups, and fewer kids *(such as urban planning students)* going to college.

A less affluent population would have had fewer cars. Yet, even with fewer cars, the cities would have been far more congested because higher densities mean worse traffic congestion. The worst traffic congestion in the world is in poorer, very dense places, such as Bangkok, Jakarta, and Mexico City.

Without the Chevrolets, Fords, and Toyotas, our parents and grandparents would have had fewer employment opportunities. Their smaller paychecks would have bought even less because of the higher prices people pay in a less mobile society.

The suburbs made us rich, or at least they had a lot to do with it.

* * *

Wendell Cox is principal of Demographia, an international public policy firm in the St. Louis region. He serves as a visiting professor at the Conservatoire National des Arts et Metiers in Paris (a national university). He compiled a research report for PSATS in 2005 titled "Growth, Economic Development, and Local Government Structure in Pennsylvania." ✦