

Chapter 1: An Asset-Market Approach to Local Government

This chapter frames the basic questions that motivate the book and outlines the homevoter hypothesis. The important facts are that home values are the largest part of most people's assets, and public events like taxes and spending affect the value of that asset. I describe the event that triggered the hypothesis, an insight I got at a zoning board hearing. The uninsurable riskiness of homeownership explains why homeowners dominate local politics.

The more debatable issue is where the homevoter model applies. Historically, owners of business property were the major players in the local politics, but since about 1920, homeowners have become the dominant group of property owners. I conclude with a story that probes the moral limitations of the hypothesis.

1-1 Why Is This Book Different from Any Other?

Here are the four questions that motivate this book:

(1) Should the property tax, long the mainstay of local government finance, be pooled among local governments or, alternatively, replaced by state taxes? Statewide tax base sharing has long been a staple of school finance reform (Coons, Clune, and Sugarman 1970), and metropolitan property-tax base sharing has become a cutting edge idea among urbanists despite its long confinement in practice to Minnesota's Twin Cities (Myron Orfield 1997). Nor has the property tax been much admired among economists, who have traditionally seen it as a regressive tax on housing or as yet another burden on capital formation, somewhat like the corporate income tax (Dick Netzer 1966; Peter Mieszkowski 1972). Taxpayer surveys find that it is the least palatable tax to pay, and its use has been gradually supplanted by state taxes for much of the twentieth century (Glenn Fisher 1996; Alvin Sokolow 1998).

(2) Should public education (the K-12 level) be funded primarily by state and national governments rather than mostly by local governments? Many serious economists, political scientists, and others interested in the public sector argue in favor of state or, better yet, national funding for schools, since the public benefits of education accrue to a much larger area than that encompassed by most local governments (Roland Benabou 1996; Ladd and Yinger 1994). This argument has been implicitly accepted by more than sixteen state courts, who have ordered

legislatures to assume more of the burden of local school finance than the ordinary political process has traditionally allowed.

(3) Must local governments be restrained from an environmentally destructive “race to the bottom” when they use zoning changes and fiscal incentives to attract commerce and industry? National environmental policy is founded on the idea that, left to themselves, local governments will foul their own nests and those of their neighbors in an environmentally destructive “race to the bottom” (Daniel Esty 1996). Even scholars sympathetic to local governments worry that they may be tempted to sacrifice the environment for jobs and tax base (Eric Monkkonen 1996; Oates and Schwab 1988).

(4) Is the best remedy for the problem of “exclusionary zoning” to shift regulation of land use to metropolitan governments or statewide bodies? Most reformers regard the insular zoning of modern suburbs as soluble only by having higher governments make them accept their “fair share” of low-income housing and other unpopular land uses (Anthony Downs 1973; Charles Haar 1996). Others have argued that city-wide zoning is an obsolete concept whose functions would best be shifted to the neighborhood (Robert Ellickson 1973; 1998; Robert Nelson 1999). Both sets of reforms regard local zoning as a power that is detachable from local government.

I take a contrary view:

(1) The property tax must be analyzed as part of a system of local government that provides public services with less economic waste than others. Proposals to detach it from local units and distribute it on a metropolitan or statewide basis undermine this advantage.

(2) Schools that are funded (not simply administered) locally perform better than those whose funds come largely from the state. The school-finance reforms initiated by state judges are a “natural experiment” in fiscal centralization, and the results are disappointing. The loss of local fiscal control has, according to many studies, resulted in declines in test scores and, in some important cases, diminished voter support for education.

(3) Local governments are in fact so skeptical of the adverse environmental effects of new commerce and industry that their behavior is better characterized as a “race to the top” of the environmental pyramid. This race is propelled by risk averse homeowners, who cannot insure their major asset from adverse neighborhood effects. Nor are homeowners in one community eager to degrade the environment of neighboring communities for their own fiscal benefits, in

part because municipal neighbors are locked into a web of reciprocal relationships that are sensitive to unprincipled opportunism.

(4) The history of local government formation demonstrates that zoning is an essential ingredient of municipal formation and function. Reforms of land-use regulation should recognize that no local government will surrender much of that authority to a metropolitan-wide government. The reforms more likely to succeed are those that address the fundamental reasons that homeowners are so skittish about neighborhood change. Financial carrots and sticks are essential to the orderly and equitable development of metropolitan areas.

1-2 Homeowners' Big Asset Grabs Their Attention

The *reason* that local governments perform better is that the benefits and costs of local decision making are reflected in the value of property in the jurisdiction. The homevoter hypothesis holds that homeowners, who are the most numerous and politically influential group within most localities, are guided by their concern for the value of their homes to make political decisions that are more efficient than those that would be made at a higher level of government. Homeowners are acutely aware that local amenities, public services and taxes affect (“are capitalized in”) the value of the largest single asset they own. As a result, they pay much closer attention to such policies at the local level than they would at the state or national level. They balance the benefits against the costs of local policies when the policies affect the value of their home, and they will tend to choose those policies that preserve or increase the value of their homes.

The importance of a home for the typical owner can hardly be overstated. Two-thirds of all homes are owner occupied. For the great majority of these households, the equity in their home is the most important savings they have. Data from 1990 surveys show that “median housing equity is more than 11 times as large as median liquid assets among all homeowners; even for homeowners over 65, that ratio was still more than 3 to 1” (Engelhardt and Mayer 1998, p. 136).

It was reported that the 1990s bull market for corporate stocks has made the aggregate value of these stocks exceed the aggregate value of homes in the United States. The 1990s increase in stock-market wealth, however, was not widely shared. Examining the Survey of Consumer Finances, Joseph Tracy, Henry Schneider, and Sewin Chan (1999, p. 3) found “that the typical household in 1995 had 66 percent of its total assets in real estate and *no* portion of its assets in

corporate equity.” I point this out to emphasize why most residents have always been acutely concerned about public events that affect their homes' value. They don't really own much else.

I am arguing both positive and normative positions in this book. I think that, subject to some important qualifications, local governments perform localized services more efficiently than the state or national government would provide them. But readers do not have to accept my normative contentions to find something useful here. The approach that yields the best understanding of local government behavior, and hence the best predictions about what happens when institutional arrangements are changed, is to see that behavior through the eyes of a homeowner.

1-3 Homevoters Think Holistically about Local Government

It is important to think of my thesis — that concern for home values is the central motivator of local government behavior — as being tied up in a package in which financing, regulation, and expenditure are all done by the locality. Local officials and voters are assumed to be capable of seeing the whole picture. The story makes little sense if each component — taxes, spending, regulation — is examined by itself. Considered in isolation, the payment of \$3000 in property taxes to the locality to fund schools is just as painful to the taxpayer as the payment of \$3000 in income taxes to the state government to fund schools. (Actually, the property tax is probably more painful, since most income tax is withheld from paychecks.)

The same is true for expenditure: Parents of school children care as much about the quality of education when it is funded by the state as by the locality. And a regulatory change to accommodate a new dump excites as much neighborhood interest when it is proposed by an agency of the U.S. government as by the local waste authority. My hypothesis does not deny that a dollar is a dollar, a school book is a school book, or that a dump is a dump is not a rose.

But at the local level, none of the foregoing events can usefully be considered in isolation by those who make the decisions. An increase in local property taxes to add teachers for schools may make the community more attractive to homebuyers. This will, if the program is cost effective, add to the value of all homes in the community, not just of homes currently containing school-age kids. The prospect of a capital gain (or the anxiety about a loss if the schools are left to deteriorate) makes the policy more palatable to the majority of voters, even those who do not

have kids in school. The added value to homes from an efficient program in turn increases the property-tax base.

Mine is not just a story whose tag line is that everything goes round and round. There is a prime mover at the local level. In the foregoing scenario, both the costs and the benefits of the action — a tax increase, an extra teacher — are reflected in home values in the community when done at the local level, but not if they are part of a uniform state or national policy. Because of this particularized effect on homes elsewhere in the community, homevoters will, at the local level, want to adopt the mix of policies that maximizes the value of their primary assets.

Attention to home values will also guide regulatory policies. A town that is asked to rezone property for a low-level nuclear waste dump in exchange for \$2 million a year in cash and benefits has to consider not just the value of the cash (which could be used to cut property taxes or to augment local services), but also the effect that harboring the dump will have on the community's reputation and health and hence the value of the voters' homes. This probably accounts for why the actual proffer of such a deal in New Jersey found no takers among that state's 567 municipalities (*New York Times*, December 9, 1995). The existence of the dump and its risk of spillover effects would be reflected in home values, and it apparently takes more than \$2 million a year to offset that. The state commission formed to persuade localities to accept the 50-acre facility was disbanded in 1998 after failing to persuade any municipality even to consider the details of the deal (*Bergen County Record*, February 15, 1998).

An example of the error that my approach avoids is much of the economics profession's analysis of "impact fees." These fees are levied on new development by local governments, and economists have typically analyzed them as if they were taxes. The taxes, it is said, add to the cost of the house in the same way that sales taxes add to the cost of consumer goods. Yet this analogy overlooks that impact fees are levied by a municipality that can withhold something that developers value if the fees are not forthcoming. If a court strikes down a sales tax, the state legislature that adopted it is unlikely to do anything that will affect the buyers or sellers of commodities. But if a court strikes down an impact fee, the municipal legislature is likely to respond by making it more difficult for developers to get their projects done. Impact fees cannot be thought of in the traditional tax framework because they are not taxes in the traditional sense. They are payments for permissions that can be withheld.

1-4 Terminology: Capitalization and Property-Tax Base

When I say that proximity to a dump is “reflected in home values,” it is the same as saying that proximity to a dump “is capitalized in home values.” Noneconomists are usually put off by the term “capitalization,” but it is not a difficult concept. The term is borrowed from asset markets. It means nothing more than that the expected future flow of benefits or costs that accrue to something you own — a share of stock in Microsoft, a Russian government bond, your home — are systematically reflected in the present value of your asset. The present value is the price you could sell it for right now. Good news about Microsoft's expected earnings raises the price of that asset; bad news about Russia's economic reforms reduces the price of Russian bonds; reductions in local taxes, unaccompanied by reductions in local services, raise the value of your home.

The term “capitalization” puts people off because it evokes the messy algebra of discounting. The \$10,000 benefit expected to be received 20 years from now is worth much less than \$10,000 received right now, and the way to calculate that benefit is to apply a discount formula to the future benefit. But for the most part, it is not necessary to understand how this is done to use the concept of capitalization intelligently. (A step-by-step trip through the algebra intended for lawyers is Fischel 1991a.) People to whom I explain the concept for the first time usually respond with something like, “of course the value of any asset is affected by anticipated events. Why would anyone think any differently?”

Because the property tax plays a large role in local government, it is important to understand its mechanics. The property tax is collected as a percentage of the tax base, which is the value of land and buildings located within the community. A local official called an assessor estimates the value of each taxable parcel to arrive at its assessed value, which in most states is supposed to be a uniform fraction of the estimated market-value of the property. (It does not matter what fraction of market value is used as long as it stays the same from year to year, so examples in this book assume that property is assessed at 100 percent of market value.) Assessments thus determine the share of local taxes that each property owner must pay.

The amount of taxes to be collected is determined annually by the local governing bodies such as city councils and school boards. Property taxes pay for spending that is not financed by other means, such as (to mention the other two largest sources of local revenue) higher-

government grants and local fees and user charges. The total amount to be collected divided by the tax base gives the property tax rate. A typical tax rate might be on the order of two percent, so that an owner of a home assessed at a market value of \$200,000 would pay \$4,000 annually in taxes. (Section 6-5 below explains the difference between the tax rate and the “tax price,” the latter being what the average voter has to pay for an increase in public services.)

For most local governments, the property tax is their largest single source of discretionary funds. As a result, public officials pay close attention to the tax base. The tax base of the average community is composed of, in the usual order of value, residential property (about 65% of the total), commercial and industrial property (25%), and “undeveloped” land such as farms, woodlots and vacant lots (10%). The proportions vary considerably among communities. Some small suburbs are almost exclusively residential, and a few cities will have a large fraction of commercial and industrial property. Furthermore, several states allow communities to tax nonresidential properties at a higher rate, so that the residential share of taxes may be overstated by assessed value figures. As a result, there is considerable variation in property tax rates among local governments.

1-5 Risk is the Key to Homevoter Participation

The idea behind the homevoter hypothesis was first advanced in a paper by Jon Sonstelie and Paul Portney (1978), “Profit Maximizing Communities and the Theory of Local Public Expenditures.” That there is a financial motive for local political behavior now seems obvious. But it also presented a puzzle. We take care of our own homes because the benefit redounds to ourselves. Fixing the furnace makes sense, even if you are selling your home next year, because a nonfunctioning heating system would devalue your major asset. Prospective buyers would lower the price you would receive when you sold it.

But what special motivation would make people take care of the collective community benefits and costs that affect home values? Why wouldn’t homeowners “free ride” on the efforts of others at zoning hearings and school board meetings and city elections, with the result that only special-interest groups would be organized well enough to affect local politics? Here’s how I discovered the special motivation.

I was chairing a meeting of the Hanover, New Hampshire, zoning board in 1997. A developer, who was a well-known native, was making a request for a routine special exception.

(Unlike variances, which are hard to get, “special exceptions” are presumed to be granted if the applicant meets specific criteria set out in the ordinance.) He had purchased undeveloped land in a lightly populated residential district and subdivided it into lots larger than required by the zoning ordinance to build about a dozen single-family homes. The proposed homes would be nicer than those already in the neighborhood, and all of them would be out of sight of adjacent homeowners. All the developer needed from the board was permission to build his driveways across some intermittent streams that qualified as wetlands. He bent over backwards to conform with the rules in that his proposed driveways exceeded the recommended drainage specifications at every crossing.

The opposition came from neighbors, particularly two who lived closest to the proposed driveway entrance. They raised “not in my back yard” (NIMBY) issues about flood control and character of the area, both of which I thought were likely to be improved by the development. It was an all-too-familiar litany for me after nine years on the board, and my mind started to go on autopilot.

As one opponent went on and on about the supposed ill effects of this project, I found myself brought up short: “Wait a minute,” I thought. “I know this guy (the NIMBY). His son and mine are friends. I've seen him at school functions and talked with him. He's a sensible guy, salt of the earth type. He's not crazy; he can't believe that this project is likely to harm him. So what's he worried about?”

Light bulb turns on in my head: He's not worried about the likely, *expected* effect of the development, which was benign. He's worried about the *variance* (statistical, not legal) in the outcome. He, like almost everyone else in town who appears at these hearings, owns his home. It constitutes nearly all of his nonretirement assets. He can insure it against fire and theft, but he cannot insure it against adverse neighborhood effects. So Tom (the NIMBY) was doing his best in the absence of insurance to reduce the possibility that some unlikely event would adversely affect the value of his home.

NIMBYism is weird only if you think solely about the rationally expected outcome from development. NIMBYism makes perfectly good sense if you think about the variance in expected outcomes, and the fact that there isn't any way to insure against neighborhood or community-wide decline.

As often happens with my great ideas, I soon found that someone else had thought of it earlier. In an obscurely published paper that I nonetheless had in my files (and so maybe my zoning-board epiphany was just my subconscious at work), Albert Breton (1973) invoked economic theory to explain the existence of zoning and the difficulties it posed for developers. He identified the cause of residents' aversion to development as an incomplete insurance market. Since residents cannot insure against neighborhood change, zoning offers a kind of second-best institution. If homeowners were insured against neighborhood decline, they wouldn't worry so much about unlikely scenarios and behave like NIMBYs.

If homeownership is such a risky portfolio choice, why is it so common? Pride of ownership is one factor, and tax advantages are another. The imputed income (the amount you would have to pay to rent your own home) from owning a house and the capital gains realized from ownership are now completely untaxed at the federal and state level. No other widely available asset has both advantages. And in one sense, owning a home rather than renting does reduce risk. As a housing consumer, having a predictable stream of cash payments in the future is valuable, even if the value of the underlying asset fluctuates. So the risk I am concerned with is asset risk, not cash-flow risk.

1-6 Why Homeowners Are Different from Others

In further support of the idea that the risks of homeownership are the key factor, I would point out that both apartment owners and apartment dwellers are rarely NIMBYs, even after accounting for their lower numbers. I don't have numbers on this, but in my experience on a zoning board and my frequent attention to other disputes, it appears that the opposition to land-use change is usually by homeowners. The only systematic exception is opposition by existing businesses to potential competitors, and even then they usually try to clothe their naked protectionism with appeals to environmental issues that primarily affect homeowners.

Lack of NIMBYism by apartment owners seems strange only if we attribute NIMBYism simply to expected effects of the proposed development rather than the variance of those effects. In absolute dollars, owners of multifamily housing have even more to lose from adverse neighborhood effects than most homeowners. And apartment-building owners could be effective NIMBYs if they cared to, since they could round up tenants and business allies to oppose the land-use change. But such opposition is rare. The reason is that owners of multifamily homes can

spread their risks of ownership much more easily than homeowners. They cannot insure against devaluation of their assets from neighborhood change, but they can divide ownership of rental housing among many owners much more easily by forming a REIT (Real Estate Investment Trust) or some other multi-investor form of ownership.

Homeowners cannot similarly divide their assets among locations. A proposal to divide home equity between owner-occupants and distant investors is described in Andrew Caplin et al. (1997). This arrangement, which would be similar in many respects to Real Estate Investment Trusts, would reduce homeowner exposure, though not the risk of ownership. The authors of the proposal concede, however, that dividing ownership is considerably more difficult for owner-occupied homes than for apartment houses and office buildings. A more direct way to assuage NIMBYism is home equity insurance, which has been advocated by Karl Case and Robert Shiller and Allan Weiss (1993). Their scheme, however, would cover only swings in metropolitan-wide values, not individual communities or neighborhoods. Shiller and Weiss (1998) conceded that even this coarser insurance market would be dauntingly difficult to establish. Zoning may be the best insurance for now.

Another method of diversification, suggested to me by a rueful California real-estate investor, might be for homeowners to get a second mortgage and use the proceeds to invest in safer assets. If the home's value goes down too much, the homeowner can just walk away from the mortgage. Many states, however, allow the lender to haul a defaulting homeowner into court to obtain a "deficiency judgment" (Michael Schill 1991, p. 494). The lender obtains the difference between the home's foreclosed value and the unpaid debt, which puts the homeowner's supposedly safer assets at risk. Some states disallow this remedy — though usually only for first, not second mortgages — but even then the homeowner suffers relocation costs and a much poorer credit rating from a default. Second mortgages are risky way to spread asset risk.

After a while, it occurred to me that my zoning-board insight applies to more than just land-use regulation. Concern about the vulnerability of their largest asset also explains why homeowners are more likely to participate in school board meetings, vote in local elections, and otherwise participate in community affairs. There is hard evidence that they do so. Denise DiPasquale and Edward Glaeser (1999) analyzed a national survey of citizen participation in local affairs. Even after controlling for other economic and demographic differences between

homeowners and renters, they found that homeowners were more conscientious citizens and that they were more effective in providing community amenities.

The importance and vulnerability of their asset are not the only reasons that homeowners are more likely to be the major local political actors. Living in a home for a long time creates a personal attachment for which changes in the neighborhood and community are upsetting. Surveys indicate that long-time residence by both renters and homeowners is an important factor in community participation (Verba, Schlozman, and Brady 1995, p. 452). But length of residence does not always mean more protectiveness. Kent Portney (1991, p. 94) found that long-time residents were *less* opposed than newcomers to the establishment of proposed waste-disposal sites in Massachusetts. Less systematically, I have observed that people who have just moved into the neighborhood are often most concerned about proposed land-use changes. Maybe noneconomic attachments to neighborhoods and community are formed that quickly, but I suspect that the size of the down payment and the newly acquired mortgage make new homeowners especially watchful of local activity. The uninsurable-asset aspect of homeownership still seems like the key factor.

1-7 Homeowners Have Not Always Been Prime Movers

People to whom I have explained the homevoter hypothesis often agree with it but point out that it neglects the influence of other property owners in the political process, particularly development-minded interests such as employers, homebuilders, and Chambers of Commerce. Historically, it certainly seems better to focus on development interests. The “quiet enjoyment” of land was not what land-hungry pioneers were after in any stage of the settlement of the American continent.

In the phrases made famous by economic historian Willard Hurst (1956), American pioneers and settlers of the West eagerly transformed “land at rest” into “land at risk.” The paths of the common law and constitutional protections of property were both turned to facilitate this widespread demand for development (Harry Scheiber 1989). Entrepreneurial landowners founded towns and cities, not just farms and ranches, to make money for themselves and their investors. Even the Puritans had mixed motives, as the title of John Frederick Martin’s work suggests: *Profits in the Wilderness: Entrepreneurship and the Founding of New England Towns in the Seventeenth Century* (1991).

Town founding flowered after the American Revolution. Alan Taylor's fascinating *William Cooper's Town* (1995) is a fine-grained account of the profit-minded activities of the New York town founder who also sired the novelist, James Fenimore Cooper. The senior Cooper laid out lots, provided financing for new farms, and established a public school all with an eye toward attracting settlers in the 1790s.

Nor was Cooper's careful planning unique, as John Reps's (1965) wonderfully illustrated history of American town planning establishes with numerous instances. A 1790s reporter described an Ohio Valley town-founder's strategy, which rivals the sophistication of modern e-commerce entrepreneurs:

“In order to found a colony at first, he holds out an encouragement to settlers by giving them a town lot and four acres of ground for nothing....This he does only to the first twelve or twenty that may offer themselves...In order to manage this concern to the best advantage, the [founding] landowners will always take care and not sell all their land contiguous to each other, but only at certain distances, so that the whole face of it may be cultivated, and the intermediate uncultivated parts consequently rise in value...” (Reps, p. 358)

It is thus difficult to read the development of American towns in the 1800s as other than a competitive contest among development-minded landowners. Eric Monkkonen (1988; 1995) persuasively argues that the municipal corporation, an American invention of the early 1800s, was an important vehicle for economic development throughout the nineteenth century.

1-8 Commuters Vote Their Homes, Not Their Jobs.

Why are things different now? One reason for the pro-development impetus of local politics in the 1800s is that most people lived and worked within the same jurisdiction, and often on the same parcel of property. Being a homeowner had little to distinguish itself in municipal affairs from being a farmer, a business owner, or an employee. It was not that the business owner was indifferent to his home. It was that his town was also his place of work, and he would make trade-offs to promote both his business interests and his interests as a homeowner. Commuting from one town to another on a daily basis was not feasible for most people. Up to the late 1800s, even the biggest cities were walking cities, and the upper classes lived closest to work, in contrast

to twentieth century suburban patterns of the rich living in the far suburbs (LeRoy and Sonstelie 1983).

As I shall demonstrate further in section 9-3, the local political framework changed to favor homeowners in the first three decades of the twentieth century. Intraurban commuting became widespread first with streetcars (Sam Bass Warner 1962) and soon after with buses and automobiles. Urban homeownership also increased considerably in the same period.

Commuting and homeownership created a new urban politics. Where people worked and where they resided were no longer the same, and their political loyalties became divided. The growth of homeownership and owners' demand for protection of their assets from the threat of commercial intrusions brought zoning into being in the 1910s and 1920s (section 9-4 below). The further expansion of the voting franchise, particularly women's suffrage, and impatience with big-city political machines brought control of politics ever closer to the voters.

1-9 Big Cities and Developer-Elites Are Lesser Players

The homevoter is a twentieth century political phenomenon whose importance has been hidden from most scholars by their fixation with the machinations of big-city politics. Influential books such as Paul Peterson's *City Limits* (1981) have delved the politics of large places. Peterson's outlook is similar in many ways to mine, especially in his views that cities compete with one another in an economic context. He also notes, as I do, that cities are different from states in that “urban politics is above all the politics of land use” (p. 25). But Peterson arrived at pessimistic conclusions about cities' ability to solve their own problems. As a result, he proposed some extraordinarily centralizing reforms, such as fiscal equalization by the federal government (p. 219).

Peterson's pessimism arose, I suspect, because of his focus on the largest municipalities. He was writing in the shadow of New York City's brush with bankruptcy in the 1970s, when all large cities seemed to be in trouble. Although I am inclined to the more optimistic view of Bernard Frieden and Lynn Sagalyn's *Downtown, Inc.* (1989), which revealed much entrepreneurial bootstrapping by such places, my main response is that big cities by themselves are not all that important anymore.

Political scientists have begun to recognize that urban issues require an understanding of the political economy of the suburbs, in which more than half the American population now resides

(Danielson and Lewis 1996; Mark Schneider 1989). Only about a quarter of the U.S. population lives in a city with more than 100,000 people (Eric Monkkonen 1995, p. 3). The fraction peaked in 1930 at about thirty percent. As I will argue in section 4-13 below, smaller size usually means that homeowners get their own way.

In the places where most people live — suburbs, towns, and small cities — homeowners have become the dominant political force. This trend was accelerated by the U.S. Supreme Court's 1960s reapportionment decisions, which held that state legislatures had to be apportioned on the one-person, one-voter rule. Although the classic malapportionment was the overrepresented rural county, the decisions actually helped the suburbs gain representation at the expense of both central cities and rural areas (James Reichley 1970, p. 172; Danielson and Lewis 1996, p. 206).

Sociologists have suggested that cities and suburbs can be characterized as “growth machines,” to use the term first deployed by Harvey Molotch (1976). Prodevelopment elites are said to be barely ruffled by growth controls and other municipal manifestations of homeowners' muscle (Warner and Molotch 1995). Although I think their claim that growth controls do not raise housing prices is contradicted by the evidence (Fischel 1990), I must concede that developers and their allies are active players in municipal affairs even in smaller cities.

My thesis, however, is not that developers are powerless. They do have influence in local affairs. But in the smaller jurisdictions in which most of the population and developable land are located, it is the influence of supplicants and salesmen. They need to get the approval of local officials. Those officials are responsive to voters whose local economic stake is in the value of their homes and only indirectly in the value of new development. Even in larger cities, where developers have more traditionally had special influence, the establishment of strong neighborhood associations makes developers dance to the tune of local homeowners (Berry, Portney, and Thomson 1993, p. 287).

Nor can developers sweep away opponents with the aid of the courts. Builders' “right to develop” in the teeth of opposition from nearby homeowners has been tenuous at least since the U.S. Supreme Court put its seal of approval on zoning in *Euclid v. Ambler* (1926). Other judicial doctrines that might protect developers have been anesthetized for almost as long (Robert Ellickson 1977). The resurgent “regulatory takings” doctrine offers what I think is a useful tool to

discipline local zoning's excesses (Fischel 1995). I must concede, however, that there is little evidence that state courts have yet grasped this possibility. As a result, most developers know that it is by the sufferance of the homevoters that they get their projects approved. The nearby homeowners must be persuaded that the development does not leave them worse off, and the homeowners taxpayers must likewise be satisfied with the fiscal impact.

1-10 Conclusion: Doing Good and Doing Well

Thomas S. Stribling's novel, *The Unfinished Cathedral* (1934), was set in Florence, Alabama in the early 1930s. The scenario, location, and timing correspond to the facts of the infamous incident in Scottsboro, Alabama. Its opening chapters describe a lynching in the works. Six black youths were rousted from a freight train on which they had stolen a ride and were accused of raping two white women, who had also been nonpaying guests of the railroad.

As the news of the alleged rape and the arrest of the youths spreads, a lynch mob descends on the town. They surround the jail and demand that the boys be given up to them. Just as the mob seems ready to overwhelm the law, a group of local Rotarians marches out from a nearby building and place themselves between the mob and the jail. Their leader persuades the mob to disperse.

Rotarians? No, the local Rotary club had not suddenly become an agent of the NAACP. Its entirely white membership included the owners of most of the developable property in the town. Florence (like Scottsboro) is on the Tennessee River, and the Tennessee Valley Authority's dams were being built at the time. Property values were rising near dam sites as land speculators from the North were expected to buy up prime locations for new industry and related development. The Florence Rotarians believed that a lynching, however well justified in their minds, would result in bad press for Florence in northern newspapers. Any perception that the city was a lawless place might, they feared, put an end to the ongoing property boom and leave them holding worthless assets. So they risked their lives in a daring and successful maneuver to stop the lynching. Concern about property values saved the lives of the accused boys.

Accounts of the real Scottsboro case, which was a national *cause celebre* (the accused were convicted but later exonerated), do mention a lynch mob, but it was dispersed after the sheriff called in the National Guard, not the Rotary Club (James Goodman 1994, p. 6). Stribling's novel added the Rotarian twist to the story, but it was not a fanciful addition. In his highly regarded

work, *The Mind of the South*, historian Wilbur J. Cash indicated that lynchings declined in the 1920s and '30s as the Southern population gathered into towns whose material prosperity made them sensitive to “the frown of the world” (1941, p. 306). Stribling's fictional scenario was intended both to illustrate this fact and to deploy it as an indicator of attitudes in the small Southern city. (Both Cash and Stribling indicated that the lynch mobs were most often rural folk who, I would point out, had less to lose from the “frown of the world.” Townspeople's fortunes were tied to local reputation; farmers' output was sold in anonymous markets.)

I originally intended to include Stribling's vignette as an indicator of the power of property to motivate men to organize for collective action and to respond to the opinions of the outside world. I think the story does that well enough, although Stribling neglected to say much about homeowners. But the story also raises a question about the merits of the motive around which I have organized this book. According to his intellectual biographer, Stribling's use of this example was intended to show the shallowness of the commitment of white Southern society to the rights of blacks even as the worst manifestations of oppression — mob violence — were declining (Edward Piacentino 1988, p. 103). His theory certainly sounds consistent with the rest of *The Unfinished Cathedral*, which takes Southern Babbitry unsparingly to task. Stribling would have preferred, I assume, to have written about a group of whites who stopped a lynching for more noble motives than to protect local property values, but that would not have been true to the world as he saw it.

In the present book, I am going to show how the mercenary concern with property values, especially that of homeowners, motivates citizens to organize and make personal sacrifices for such things as public schools and amenable environments. But I want to dilute the seeming cynicism of that proposition. I don't mean to say that people who are concerned about these good things act solely because of how it affects their property values. Nor do I mean that if good schools and other public amenities didn't map into higher home values that they wouldn't be good things (though I guess I would take a second look at them in that case). What I am arguing as a normative matter is that the world will get more of these good things if the motive to do good is lined up with the motive to do well.