

ing commission, but mistakenly classify it as a delegation of legislative power. It is not. Although the making of rules for the regulation and taxation of private persons is a legislative function assigned exclusively to Congress under Article I of the Constitution, the management of federal property is left to the more open-ended Article IV, and under Article II the executive has considerable discretion in the management of the armed forces.

- They see efficiency in leaving the regulation of airline safety to the experts at the Federal Aviation Administration (FAA), but Congress could make use of that expertise and still take direct responsibility for airline safety. One way would be to require FAA to require the use of “best practices,” emulating the subsection of the Clean Air Act that sets emissions standards

at the twelfth percentile of cleanliness in each industry. Another way would be to require Congress to enact proposed regulations. Or the agency could be allowed to choose between best practices and congressional enactment.

We should not be indifferent to Congress’s choice among the many constitutional ways to delegate. Real consequences flow from agenda-setting devices, such as fast-track trade legislation and the base-closing commission, and from micromanagement. That is why Epstein and O’Halloran’s description is so valuable, even though it does not describe delegation in the constitutional sense.

Power vs. Responsibility Finally, Epstein and O’Halloran get the critics of delega-

tion wrong when they have us saying that delegation is bad because Congress abdicates power (p. 237). Congress does not abdicate power, or at least not much. It has a hundred ways to keep some grip on agencies. What Congress abdicates is not power but responsibility. That is why the question of delegation should be a question for the courts as well as the politicians.

CONCLUSION

MY CRITICISMS FOCUS ON ONLY A FEW pages of a long and splendid book. When Epstein and O’Halloran apply their considerable talents to incorporate blameshifting into their model and gear it to delegation in a constitutional sense—as I hope they do—we will all be in a better position to understand the true effects of Congress’s abdication of its constitutional responsibility. ■

The Costs and Benefits of User Fees—Oh, Never Mind the Costs

Reviewed by William T. Bogart

HOME ON THE URBAN RANGE:
An Idea Map for Reforming the City

by Filip Palda

117 pp. Vancouver:

The Fraser Institute, 1998

THIS SHORT BOOK CAN BE SUMMARIZED briefly: User fees are good, taxes are bad. Country clubs are good, suburbs are bad. Dense is good, spread out is bad. And everyone who lives in the suburbs works downtown.

The thesis is that by imposing user fees on municipal services, citizens will see the true cost of their demands on the city and will therefore adjust

their consumption appropriately. As a result, settlement patterns will become more dense, highway congestion will be reduced, solid waste will no longer clog landfills, and democracy will become more vibrant as citizens hold elected officials accountable and elected officials respond quickly to citizens’ demands.

The prose is entertaining and breezy, albeit with an edge of indignation about the current system of property taxes. Palda likens the local property tax to a “ring of invisibility” for politicians because it protects them from direct accountability for the quality of local public services. The wealth (“honey”) resulting from the high productivity of cities attracts “beekeepers” that care for and increase the wealth but also “bears” that plunder it. And providing general services without

imposing user fees places “pearls before swine.” Palda even goes so far as to criticize the computer game SimCity because it does not give the player the option of collecting user fees!

THE AUTHOR’S SELECTIVITY

THE BOOK MAKES ME GRATEFUL FOR peer-reviewed academic journals. Although the cost of peer review is that it often limits advances in knowledge to tiny increments, the benefit is that authors must confront awkward facts and countervailing theoretical arguments. The author of this book is extremely selective about both the theory and the facts that he chooses to present. The net effect is to deceive the reader about the true benefits and costs of his proposed reforms.

I too am a fan of user fees, but ignoring arguments against user fees does not make those arguments go away. It is well known, for example, that Seattle imposed large user fees on garbage collection in the 1980s. In his discussion of the effects of those fees (pp. 74-75), Palda never mentions the “Seattle stomp,” which reduced the volume of garbage collected by increasing its density. People will react to user fees by changing their behavior, sometimes in ways unwanted

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by the advocates of user fees.

I will discuss below these five key errors in Palda's analysis: (1) He assumes implicitly that all suburban residents work downtown, which is inconsistent with the facts about metropolitan structure. (2) Even if everyone did work downtown, he argues incorrectly that suburban residents are people with a lower value for time. (3) He assumes implicitly that the property tax is not in part a user fee for services and that all zoning is inefficient, which runs counter to a long and powerful stream of research. (4) He does not address the difficult question of how to implement his proposed reforms. (5) He neglects important existing sources of competition for local governments.

WHERE PEOPLE WORK

THE ASSUMPTION THAT PEOPLE FROM the suburbs work downtown reflects a picture of metropolitan areas called the monocentric city model, which was a reasonably good description of most metropolitan areas as recently as 1950. Unfortunately for Palda, the world has changed since 1950. The dominant theoretical model today is called the polycentric city model, which recognizes the growth and importance of employment centers ("edge cities") outside the old downtown and central city.

Of course, if edge cities were confined to a few isolated and well-known instances of urban sprawl, such as Los Angeles and Houston, then there would be less to worry about. However, Alex Anas, Richard Arnott, and Kenneth Small, in "Urban Spatial Structure" (*Journal of Economic Literature* 36 [1998]: 1426), summarize a growing amount of research indicating that polycentricity is the norm today. In fact, we seem to be moving beyond polycentricity. Anas et al. find that less than 50 percent of total employment in a typical metropolitan area is concentrated in employment centers, the rest being diffused throughout the metropolitan area. Researchers have found that only 10 to 15 percent of

total metropolitan employment is in the downtown of the central city in the metropolitan area. Palda focuses his attention on the problem of suburban commuters using downtown public services without paying for them. That is not the main problem in a typical metropolitan area today.

HOW PEOPLE COMMUTE

LET US TURN NOW TO PALDA'S ANALYSIS of commuting. That analysis is a perfect example of how he takes an argument that is *almost* correct and uses it in a misleading way. He correctly points out that the main cost of commuting is the time it takes. And he correctly points out that the opportunity cost of time is higher for high-income people than low-income people, because an hour of work will buy more goods for high-income people than for low-income people. But then look at what he concludes (p. 29): "People who have high time-costs will try to live near their place of work, holding all else constant. Citizens with a low value on their time will not mind spending

from congested routes leading to downtown and toward (still congested, but less so) routes leading to suburban employment centers.

Third, he neglects the fact that commuting costs are not the sole determinant of location decisions. In the monocentric city model, households are assumed to trade lower housing costs for increased commuting costs as they move farther from downtown. If high-income people want to consume a lot of housing, it is perfectly consistent for them to incur high commuting costs even in the outdated theoretical model that Palda implicitly uses.

NO PANACEA IN USER FEES

PALDA PRAISES COUNTRY CLUBS BECAUSE they are composed of similar people with similar interests who have chosen to join together. He contrasts them with local governments that are composed of citizens who are trying to exploit and freeload on one another.

However, his description of a country club is congruent with the dominant economic theory of local governments.

That theory, known as the Tiebout model after the economist who first proposed it in 1956, argues that people will "vote with their feet" and choose the suburb that offers the combination of taxes and services that best fits a household's preferences.

Tiebout's original argument was criticized because people thought that property tax finance would make it possible for households to freeload by building a low-value house in a desirable suburban location. In the early 1970s, Bruce Hamilton demonstrated that zoning could remove the possibility of freeloading and that the property tax could be viewed as essentially a (gasp!) user fee.

One of the most important lines of research in urban and local government economics is understanding the extent to which the Tiebout-Hamilton approach applies to real situations. But Palda does not choose to address it at all. Instead, he says that property taxes are bad, that zoning is bad, and

Suburbs and private governments
(homeowner associations) provide a good
deal of competition for each other.

two hours a day in their cars. They lose less consumption than the rich do from traffic jams. These are the suburbanites." Wow! And all this time I thought wealthier people were living in the suburbs.

Where does Palda go wrong? First, he neglects the possibility that people who work in the suburbs could live closer to their jobs by moving to the suburbs.

Second, he neglects the fact that commuting distance and commuting time are not perfectly correlated. In the past 40 years, average commuting distances have increased substantially while average commuting times have not changed much. Why? Partly because of the diversion of cars away

that country clubs are good. But to the extent that Tiebout and Hamilton are right, property taxes are good, zoning is good, and suburbs are essentially country clubs.

PROBLEMS OF IMPLEMENTATION

ADVOCATES OF GOVERNMENT INTERVENTION in markets often cite “market failure” as a justification for intervention. Market failure does not refer necessarily to the failure of markets to exist, but rather to the failure of markets to force people to face the full costs and benefits of their actions.

Palda advocates market intervention in government activities to remedy the failure of government taxes to force people to face the full costs and benefits of their activities. He correctly notes that some government services include an element of natural monopoly; in other words, there are decreasing average costs of serving larger numbers of people. Therefore, in his view, the most efficient way to provide such services is through a monopoly. But monopoly is one of the classic types of market failure, and so there must be some means of restraining the natural inclinations of a private monopolist to increase prices at the expense of those customers who lack alternatives.

Palda’s proposal is to regularly auction the right to provide monopoly services to the lowest bidder. The idea is that a company will offer its services at their true cost rather than at the inflated price a monopolist would charge. The idea is not new, but its implementation is not a trivial problem. I will let Palda describe the problem (p. 43): “The trick is in setting the length of the franchise. Make it too brief and consumers will not have the time to judge the quality of the services. Make it too long and you protect the bidder from rivals who have discovered ways of providing the service at lower cost.” I agree. However, he does not give any indication of how one would go about determining the right length of franchise. Further, it is reasonable to question whether existing local governments (whose decisions are criticized throughout the

book) can be trusted to solve such a tricky administrative problem.

COMPETITION AMONG LOCAL GOVERNMENTS

WHILE WE ARE ON THE SUBJECT OF competition and monopoly, let me return to the issue of how to evaluate suburbs. Palda argues that governments are monopoly providers of public services. The Tiebout-Hamilton model of suburbs argues that suburbs provide a great deal of competition for each other. And there is another important source of competition for local governments—private governments, in the form of homeowner associations. By some estimates, there are more than twice as many private governments in the United States as there are local governments, and the number of private governments increases daily. The competition provided by private governments should be an important factor in evaluating the efficiency of local governments; it is disappointing that Palda completely ignores their existence.

OTHER PROBLEMS

I WILL CONCLUDE WITH A FEW MINOR comments about the style of the analysis. It is very difficult to convey technical arguments in a clear way to a general audience. One temptation is to hide the technical arguments and present only the conclusions. But conclusions are rarely clear cut; they depend, rather, on the specific situation to which the analysis is applied.

In that regard, the absence of systematic coverage of the voluminous research literature on urban and local government economics is troubling. I have already noted some serious lacunae. Palda does cite some works, but leans extremely heavily on a few articles that are sympathetic with his conclusions.

A minor but telling point is the sloppiness in referring to two giants in the field, William Vickrey and Edwin Mills. Vickrey produced careful analysis of the benefits and costs of imposing user fees on roads in the late 1950s and early 1960s. Unfortunately, his name is spelled “Vickerey” throughout the text. And Edwin Mills would be surprised

to learn that he has changed his name to “Denis” (p. 114).

He would be more surprised to discover that his research finding that zoning does not seem to affect the value of land has only one interpretation, rather than the two interpretations he *actually* suggests. Palda cites the interpretation that zoning has limited effects to support his claim that externalities are minimal and, therefore, zoning is unnecessary. But Mills gives another interpretation, namely, that observed externalities are minimal because zoning is effective. This sort of biased reporting of well-known research results is not the right way to advance the debate on urban policy. ■

A Reply from the Author of Home on the Urban Range

We received Professor Palda’s reply to Professor Bogart’s review in time to print it in this issue of Regulation. For our readers’ convenience, we print the reply here rather than with the other letters in “For the Record.”

When I read a book review I always look for entertainment in the jibes and slants of the reviewer. And I also look for a synopsis. Because Professor Bogart has not provided a synopsis, at least not of the book I wrote, I will start with one.

WHAT I WROTE, IN BRIEF

CITIES ARE ENGINES OF WEALTH CREATION. Any such treasure will attract predators. In the city, predator and prey are generally the same creature. To paraphrase Bastiat, in the city everyone tries to live at everyone else’s expense. On the consumption side we see yuppies sipping their cappuccino and riding public transit at subsidies that can come to \$30 a ride, suburbanites building their homes along expressways built in part with taxes on downtown city dwellers, and the owners of vast lawns sprinkling them with tax money siphoned from apartment dwellers.

On the production side, unions of city employees establish innovation-stifling monopolies over transit, garbage collection, and water and sewage, and they use the muscle of the state to extract the high property taxes and federal sub-