

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-

sidies needed to puff their salaries beyond what a free market would establish.

The tug of war over resources is not just a zero-sum game. It is a game in which citizens spend large parts of their lives idling in traffic jams, in which the natural advantages of a dense city core are hidden by a screen of subsidies, and in which innovations from privatizing city services and opening them to tender robs citizens of the best technology and expertise.

What distinguishes the services of city government from those of federal government is that most city services can be provided according to the user-benefit principle. Paying to play is especially important in large, fast-moving societies where it is difficult to establish social norms that would encourage people to preserve resources out of good conscience. Cities in many Western countries forgo the benefits of user fees, not to mention competitively set user fees, perhaps because it is very hard to redistribute resources in sneaky, undemocratic ways when all pay for what they consume. Property taxes and subsidies from higher levels of government turn the city into a common feeding ground in which it is difficult for citizens to establish whether they are getting value for money and to impose discipline on politicians and on themselves.

How to resolve the problem is an open question, but research in public-choice economics suggests that predation of citizens on citizens is a problem, that institutions matter, and that if citizens had more information and choice, they would be better consumers of city services and better able to enter into mutual nonaggression pacts.

Information can come through user fees, which transmit clearly the cost of the services being consumed. Choice can come from granting cities greater powers of citizen initiative, which allow citizens to bypass politicians and interest groups. Research published recently by John Matsusaka (“Fiscal Effects of

the Voter Initiative: Evidence from the Last 30 Years,” in *Journal of Political Economy* 103 [1995]: 587) suggests that when given the power of initiative, citizens opt for greater reliance on user fees, less reliance on general taxes, and a smaller tax burden. With user fees and the initiative, citizens can determine the best level of city density and the optimal mix between city taxes and user fees.

PROFESSOR BOGART GETS IT WRONG

PROFESSOR BOGART CLAIMS TO BE A BIG fan of balanced and unbiased thinking and accuses me of misleading and

With user fees and the initiative, citizens can determine the best city density and the right mix of taxes and user fees.

deceiving readers. It is unfortunate for readers that he does not practice those ideals in his review.

Professor Bogart suggests that I neglect the problems with user fees and criticizes my page 75 for not mentioning the Seattle stomp (the tendency to pack garbage tighter in response to garbage pickup fees). Yet he fails to mention that on the same page I give the example of Perkasio where, “User fees motivated some citizens to put their trash in commercial dumpsters under cover of night, or to burn it. How should the city handle this problem?” Later I add: “The problem with giving all the credit to user fees [for garbage reduction] is that governments supplement fees with recycling programs and trash education programs.”

Professor Bogart insists that on page 43 I give “no indication” of how government should discover the correct length of a franchise for operating streets. He ignores the adjoining sentence in which I write “Bids open again in several years when technology has advanced enough for rivals to come up with lower bids.” Advances in technology are measurable, and stating that

these are a determinant of the optimal length of contract hardly qualifies as “no indication” of how to discover the correct length of a franchise.

Of private city governments in the form of homeowners associations, Professor Bogart says, “Palda completely omits their existence.” In fact, I discuss those associations in detail on page 108.

Professor Bogart says I am unaware of the polycentric trends in cities and that those trends have caused congestion. On page 21 I write: “The commercial Diaspora to the suburbs eases the traffic jam problem, but at a cost.

Instead of having one center where all goods can be found and prices can be compared, we waste time travelling between mini-centers for the same information.”

Professor Bogart says of the Tiebout-Hamilton conjecture that “Profes-

sor Palda does not choose to address it at all.” On page 99 I explain how the Tiebout-Hamilton mechanism can be short-circuited by subsidies from higher levels of government. Citing examples of those subsidies, I assess them as a problem because they rob citizens of the ability to vote with their feet: “Money from the province converts a city tax into a province-wide tax from which there is no place to run.” On page 113 I explain that although zoning may help citizens avoid freeloading by others, there is a cost to this avoidance, as there is whenever anyone avoids a government policy. The cost could be attenuated simply by opting for direct user-benefit pricing wherever possible.

I have addressed these several misrepresentations in Professor Bogart’s review to show how he has taken my arguments out of context and then claimed that I have skewed the facts. There is more to say but no more space in which to say it.

FILIP PALDA
Associate Professor of Economics,
École nationale d’administration
publique (Montreal), and Senior Fellow,
The Fraser Institute