

## REVIEW/COMPTE RENDU

**Zoning: Its Costs and Relevance for the 1980s**, by Michael Goldberg and Peter Horwood, with Roscoe Jones and David Baxter. The Fraser Institute, Vancouver, 1980; 133 pages. \$4.95 paperback.

This short monograph discusses the merits of urban zoning. Successive chapters and appendices provide a brief history of zoning; a description of alternative forms of zoning; a statement of some of the pros and cons of zoning; a summary of four empirical studies of the external diseconomies which provide one of the rationales for zoning; a discussion of the experience of Houston, the only large North American city without zoning; a description of some original empirical research on zoning and land use externalities in Vancouver; a discussion of alternatives to zoning; and finally, an analysis of the effects of zoning in a von Thünen model of agricultural land use.

The introduction indicates that the purpose of the monograph is to present "an economic view of zoning" (p. 4). The study does not, however, provide a coherent economic analysis of zoning. The discussion of zoning is *ad hoc* and employs little of the methodology which is standard among economists who are interested in the merits of alternative forms of government intervention in the economy. First, one would expect an economic analysis to make use of some of the land use models employed in the urban economics literature. The only theoretical model of land use and zoning in the monograph is contained in an appendix by Baxter at the end of the volume. While Baxter's analysis of zoning in a simple von Thünen model of land use is an interesting exercise, it is irrelevant to the text by Goldberg and Horwood. Baxter's model omits the land use externalities which are the primary focus of Goldberg and Horwood's discussion, and no use is made in the text of Baxter's analysis.

Second, one would expect an economic evaluation of zoning to include a careful analysis of the effect of zoning on the economic efficiency of resource allocation. Goldberg and Horwood do not even introduce economic efficiency as a criterion which might be relevant to determining the merits of zoning and alternatives. Consequently, the reader is never exposed to a discussion of the nature of the potential efficiency benefits and costs of zoning.

Third, while the authors state that "the present volume is directed toward providing citizens with the current state of

knowledge on the subject of zoning" (p. 100), the monograph does not provide the reader with anything approaching a careful review of the literature. Only two topics are covered in detail: (1) There is a summary of studies which test the hypothesis that the market price of a property is lower, *ceteris paribus*, if nearby land is allocated to the uses which are restricted by the typical zoning ordinance. There is also some new evidence on this from a previously unpublished study by the authors. (2) There is a summary of the experience of Houston, the only large North American city without zoning. On the other hand, a number of topics which are analyzed in the zoning literature receive little or no attention, although some of the relevant studies are listed in the bibliography. For example, the authors ignore the literature which analyzes zoning decisions in the context of positive economic models of government behaviour, and only one page (p. 18) and some passing references (pp. 11, 28, 29) are devoted to fiscal and exclusionary zoning.<sup>1</sup> Furthermore, the authors refer only to the equity aspects of fiscal and exclusionary zoning and ignore the argument that such zoning practices may contribute to the economic efficiency of resource allocation.<sup>2</sup> Also, while the authors refer to height restrictions as a form of zoning, they do not refer to the study by Arnott and MacKinnon [1] on the economic costs of height restrictions.<sup>3</sup>

Notwithstanding the oversights described above, Goldberg and Horwood do provide a number of sensible economic criticisms of zoning, which we will summarize, for the case of zoning restrictions which would prevent construction of apartment houses in the middle of single-family neighbourhoods. First, their review of the empirical literature on the determinants of property values suggests that the damage caused by the allegedly incompatible land uses which are traditionally restricted by zoning is substantially reduced or eliminated by the normal functioning of the market for urban land. For example, if an apartment house is built in a single-family neighbourhood, the market will allocate the houses surrounding the apartment to the households which are bothered least by proximity to the apartment house. If there are enough households which are not bothered by apartments, the prices of houses near the apartment house will not be adversely affected by the apartment house, even if most of the people in the city would not want to live in a

<sup>1</sup> See Davis [3], Frankena and Scheffman [4], Hamilton [5], Mills and Oates [6], and White [7] for examples.

<sup>2</sup> See Frankena and Scheffman [4].

<sup>3</sup> Arnott and MacKinnon [1].

house near an apartment.<sup>4</sup> Second, even if it would be economically inefficient to locate an apartment house in a single-family neighbourhood, the monograph's review of the experience of Houston indicates that the apartment house could be excluded from the single-family neighbourhood without zoning by the operations of private contracts in the form of deed restrictions imposed by profit-maximizing subdivision developers. Third, the operation of zoning absorbs a significant amount of resources. Fourth, whatever the potential case for zoning in a static world, the inflexibility of zoning leads to misallocation of resources in a world where there are unforeseen changes in the factors influencing the demand for urban land. Fifth, zoning restrictions which defend single-family residential areas may have a regressive effect on the distribution of income.

One other shortcoming of this book should be noted. Unfortunately, the preface by Walter Block of the Fraser Institute misconstrues some of the authors' important arguments, injects some incorrect arguments,<sup>5</sup> and in other respects is more or less irrelevant to the book. For example, Block misinterprets the argument that "market mechanisms exist naturally to eliminate such externalities that would arise from the proverbial glue factory on the corner of Portage and Main" (p. xiii). The correct interpretation of this argument, which is stated clearly by Goldberg and Horwood, is that the private market would allocate properties near the factory to uses which are bothered least by proximity to the factory, so that the damage caused by the factory would be reduced or even eliminated. Block entirely misses the point, and interprets the argument to mean that "land prices in the residential or business neighbourhoods are too expensive for the glue factory" (p. xiii).

On balance, readers who are interested in a brief economic discussion of zoning may wish to skip this book and read an alternative source.<sup>6</sup>

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<sup>4</sup>Of course, if the location of the apartment house is unanticipated, the wrong people may initially be located near the apartment house and these people will bear transactions costs in the process of moving to a new location.

<sup>5</sup>Block (p. xiv) fails to see that concern over the impact of new development on the demand for public services is legitimate if public services are priced below marginal social cost, while there is no comparable cause for concern about the impact on demand for goods supplied by private firms.

<sup>6</sup>For a more coherent discussion of the economics of zoning at a level which is comprehensible to non-economists, see Bish and Nourse [2].

**References**

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4. Frankena, M.W. and D.T. Scheffman. "A Theory of Development Controls in a 'Small' City", Research Report 7824, Department of Economics, University of Western Ontario, 1978, forthcoming in *Journal of Public Economics*.
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7. White, M.J. "The Effect of Zoning on the Size of Metropolitan Areas", *Journal of Urban Economics*, 2 (1975), 279-90.