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October 10, 2009

Did Planners Cause the Financial Crisis?

The Cato Institute has released a new study titled [How Urban Planners Caused the Housing Bubble](#) (Policy Analysis, No. 646, Oct. 1, 2009). Its author is the economist [Randal O'Toole](#), who has been a leading critic of land use planning and regulation (he writes a blog called [The Antiplanner](#), and his most recent book is [The Best-Laid Plans: How Government Planning Harms Your Quality of Life, Your Future, and Your Pocketbook](#) (Cato 2007). From the Executive Summary:

Between 2000 and the bubble's peak, inflation-adjusted housing prices in California and Florida more than doubled, and since the peak they have fallen by 20 to 30 percent. In contrast, housing prices in Georgia and Texas grew by only about 20 to 25 percent, and they haven't significantly declined.

In other words, California and Florida housing bubbled, but Georgia and Texas housing did not. This is hardly because people don't want to live in Georgia and Texas: since 2000, Atlanta, Dallas-Ft. Worth, and Houston have been the nation's fastest-growing urban areas, each growing by more than 120,000 people per year.

This suggests that local factors, not national policies, were a necessary condition for the housing bubbles where they took place. The most important factor that distinguishes states like California and Florida from states like Georgia and Texas is the amount of regulation imposed on landowners and developers, and in particular a regulatory system known as growth management.

In short, restrictive growth management was a necessary condition for the housing bubble.

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I think there is something to this critique, although I don't quite know if the solution should be to eschew planning altogether. To be sure, geography plays a role: California's cities are limited by water and mountains, whereas in Houston . . . well, how far out are you willing to build (or live)? But the growth-management response has also had an impact on pricing: the harder you make it to develop land, the more expensive it will be to do so. Last year University of Washington economist Theo Eicher produced a [study](#) asserting that at least **\$200,000** of the increase in the median home price in Seattle was attributable to land use regulations--particularly due to the state's 1990 [Growth Management Act](#).

It is certainly worth considering even if you don't agree with everything in the study. Thanks to Laura Rhea for the pointer.

- Matt Festa

October 10, 2009 | [Permalink](#)

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