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*"The natural resources of...communities...are their capital assets. The problem is that some communities are using their capital assets as if they were income - which is like dairy farmers' selling their cows to buy feed. Soon there will be no cows to feed. When we deplete our resources, we're treating our community as if it's a business in liquidation. We spend the income, then bequeath the mess to our children.*

*"That's where the second aspect of sustainable development comes in: equity among generations. If a local economy is based on the depletion of an important local asset, for instance soil nutrients, then future generations will not be able to make a living in the same way. Unsustainable expansion defers costs to be paid later, creating an uncertain or diminished future for our children."*

**- Michael J. Kinsley and L. Hunter Lovins**

This issue of **Reprint Mailing** is devoted to the essay "Paying for Growth, Prospering from Development", by Michael J. Kinsley and L. Hunter Lovins. Ms. Lovins is president of **Rocky Mountain Institute**, Snowmass, Colorado. Mr. Kinsley works with the institute's Economic Renewal Program, of which Ms. Lovins is co-creator.

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# Paying for Growth, Prospering from Development

by Michael J. Kinsley and L. Hunter Lovins

Residents of many growing towns and cities are learning the hard way that growth is not the solution to their economic woes. While they enjoy the benefits of growth, they also are vexed by the problems it causes: traffic congestion, crime, long commutes, air pollution, increasing intolerance, disrespect for traditional leadership, and increasingly cutthroat competition in local business. Rapid growth often causes higher rents, housing shortages, spiraling costs, and demands for higher wages to meet the higher cost of living.

Communities tolerate these side effects in hopes of capturing growth benefits. But some perceived benefits are illusory. For instance, most people believe that growth will give them an increased tax base that would relieve their tax burden and improve public services. But several studies have discovered the contrary. For example, a Vermont study found that towns with the most taxable commercial and industrial property have, on average, higher taxes.<sup>1</sup>

This paper addresses the difference between growth and development, the reasons communities seek growth, the ways in which local governments unwittingly worsen growth problems in their attempts to solve them, and how communities can develop viable local economies without growth.

## Development does not equal growth

A sound economy requires *development*, that is, vigorous enterprise and a decent standard of living. But, it doesn't necessarily require *growth*, that is, expanded community size. A community might be compared to a human being. Human growth after maturity becomes cancer. When a town continues to grow after maturity, its cancer is manifest in many ways—higher taxes, environmental degradation, spiteful controversy, and loss of a sense of community.

But *development* is quite different from growth. After reaching physical maturity,

humans continue to develop in many beneficial and interesting ways—learning new skills, discovering new interests and enterprises, and gaining deeper wisdom. Similarly, a community can develop itself without expanding. It can reduce costs, create jobs and affordable housing, enhance cultural and educational opportunities, and improve health and public safety.

Growth is an increase in size, while development is an increase in quality and diversity. Development increases the value of both public and private investments, while growth tends to require increases in these investments that may or may not increase value.

Some will argue correctly that growth puts people to work. But sustainable development (development that can endure for the foreseeable future) also offers jobs without the problems of growth. For instance, while construction of new buildings on open land (growth) puts people to work, it also requires expansion of public infrastructure and services that then leads to higher taxes. In contrast, enhancement and modernization of existing structures (development) employs people without necessarily requiring increases in public services. Sustainable development enhances existing assets, while growth requires expenditures to bring in additional capital assets.

This is not to say that growth is always wrong. Some communities need to expand if they are to become prosperous. Others, however, are realizing that growth will force them to confront difficult choices

## Why communities encourage growth

Four kinds of towns consciously seek new growth. They might be called Hungry, Rusty, Debtor, and Booster towns. These titles are simplified categories that illustrate the variety of factors driving growth in communities. In real communities, these factors are combined in various ways. But together they are the primary reasons

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many communities find themselves trapped in a dynamic they don't understand, or know how to cope with.

Hungry towns want growth in order to save themselves from a stagnant or declining economy. Rusty towns seek growth to upgrade old, deteriorating infrastructure and substandard public services. Debtor towns are growing, maybe by choice or possibly by chance, and can't seem to keep up with expansions in infrastructure and public services required and demanded by, new residents. As costs rise, they look for still more growth to keep up with lagging revenues. Booster towns are riding a wave of prosperity. They feel and act as if the town will expand forever.

In many cases, growth can genuinely improve Hungry and Rusty towns, but only if carefully managed. Many are so desperate that they'll take anything, regardless of whether it is compatible with the community. They may then get a business that stays a few years, then moves on to the next town that offers a bigger tax break or more give-aways. This leaves the towns with waste and unemployment. Or, they may even get dirty industry that discourages clean, new business from coming to town and leaves an expensive mess for the community to clean up. Even if they avoid these problems, there remains the risk that they may be overwhelmed by success.

Debtor and Booster towns are in this situation. They are expanding and experiencing serious side effects. But no matter how bad the effects, there is always a small, active group pushing hard for more growth. These range from well-intentioned folk who wish to better the community, to people who believe that they will directly profit from growth, to manipulative outsiders who care nothing for the community.

### Trapped by Growth

All towns need to manage carefully any new growth they may secure, or they will come to feel like Alice in Wonderland when she said, "The hurrier I go, the behinder I get." Their quality of life, often their primary salable product, declines. Their sources of income—for instance, clean businesses, retirees, and maybe tourists and second-home buyers—begin to look for the next unspoiled paradise.

Revenues from new growth are often insufficient to outweigh the costs of higher demand for

such public services as schools, police, fire, roads, and sewers. As a result, existing taxpayers unknowingly subsidize much of the community expansion, especially the residential subdivision of unoccupied land.

This confuses and frustrates many citizens and local officials. For years they have been assured by growth boosters that the solution to a community's economic problems is to increase the tax base. The next big expansion project, say growth advocates, will produce enough tax revenue to fix local problems without raising taxes. Most of us accept these assertions. The claim that we can grow our way out of growth problems seems so reasonable that most of us don't think much about it. After all, we've always been told that growth is the basis of prosperity.

Researchers at the Sonoran Institute have compiled a startling array of examples of growth that did not fulfill its promise. One is the Vermont study mentioned earlier. Another from DuPage County, Illinois, found that "...new development, especially commercial and industrial, places burdens on public infrastructure and services that were not being paid for by the increased value of the land."<sup>2</sup> A review of over 700 studies of the impacts of growth on rural communities concluded that public sector financial gains were small or negative.<sup>3</sup>

A recent California study on sprawl was sponsored by an unusual alliance. The Bank of America, a state agency, a conservation group, and a low-income housing group came together to say, "...unchecked sprawl has shifted from an engine of California's growth to a force that now threatens to inhibit growth and degrade the quality of life."<sup>4</sup>

A recent Minnesota study of three communities found that when agricultural land was subdivided, it cost the local government more to provide the newly required services than the newly generated tax revenues paid. More surprising, though, was the finding that, used for farming, the land generates twice as much local tax revenue as it demands back in public services.<sup>5</sup>

Some communities are astonished to learn that stopping expansion can be cheaper than accommodating it. For example, buying land for open space can be cheaper than supporting its subdivision. Boulder, Colorado found that the public cost of maintaining developed land was

\$2,500 to \$3,200 per acre per year, while the cost of maintaining the same land as open space was \$75 per acre per year.<sup>6</sup> Leaders in Huntsville, Alabama found similar costs.<sup>7</sup>

Even growth advocates are getting burned by growth. For instance, residents of Cripple Creek, Colorado, spent a lot of personal time and money to bring gambling—the current economic development fad—to their town. Their success quickly led to dismay as the growth effects of gambling dramatically increased their taxes. State Representative Bob Shoemaker said, “One guy I know...had his taxes go from \$5,000 annually before gambling, to \$500,000 annually now.” Though gambling brought substantial new revenues, it required expensive new infrastructure that was paid for by all property owners. Now many established businesses can’t afford tap fees for new water lines. They’re using garden hoses run down alleys from the new casinos.<sup>8</sup> Some residents may be compelled by increasing costs to leave their own community.

This is not to say that growth will always cost local government more than the revenues it generates. Slow growth can be accommodated and can result in a net benefit. But assuming that expansion will provide a net gain to local tax coffers is fiscally irresponsible. Residential growth is usually a loser in terms of public revenues. Commercial and industrial expansion can provide net gains, but often does not.

A community that does not scrutinize every significant proposal for new growth is gambling its future as surely as would a trip to Las Vegas with the municipal treasury. We can no longer heedlessly assume that any expansion will strengthen the community’s economy.

Though evidence is mounting that communities simply cannot cope with too much growth, how much is too much? What’s the threshold between tolerable and intolerable growth? There are so many variables and differences among communities that it’s hard to say. However, a conservative estimate is that the threshold rate is less than 2.5%. This percentage seems too low until it’s translated into “doubling time.” For example, if your community grows at 3% a year, it doubles in size in only 23 years. If the population at your birth was 5,000, it would balloon to 35,000 by the time you retired. Even at only 1% annual growth, the population would have nearly doubled.<sup>9</sup>

### Why Isn’t More Always Better?

Local government generally bills the cost of new services and infrastructure expansions on an average basis, rather than an incremental basis. That is, new costs are spread evenly among all taxpayers rather than only charged to those who create the costs. This is, in effect, a subsidy from the whole community to the developers. Old-timers who were sufficiently served by the old, inexpensive infrastructure find themselves paying a share of costly new infrastructure required to meet the expanded demands of newcomers.

According to the Bank of America study, “Continued sprawl may seem inexpensive for a new homebuyer or a growing business on the suburban fringe, but the ultimate cost—to those homeowners, to the government, and to society at large—is potentially crippling.”<sup>10</sup>

Growth subsidies are highest where local government allows or encourages the sprawl of urban expansion into rural areas. The costs of extending public services to serve rural, residential subdivisions are disproportionately high, while taxes on rural subdivisions are relatively low. Therefore, the effective subsidy to developers is larger when growth takes place further from existing public services.<sup>11</sup> This phenomenon also holds true for such commercial expansion as superstores that locate outside of municipal boundaries.

A town’s willingness to accept these growth subsidies skews the real estate market by making all expansion, especially in rural areas, appear cheaper than it will, over time, actually be. This in turn, encourages the movement to rural areas of people who will then demand urban services.

A prime example of the costs of urban sprawl is Loudoun County, Virginia, near Washington DC. As the county boomed in the 1980s, tax revenues soared. But when the growth rate declined, the local government got into deep trouble. “The average family in the county receives about \$5,800 in services each year,...But the household’s tax payment is only \$1,280—less than a quarter of the cost of services. In the 1980’s tax payments from developers covered the gap. But with growth ground to a halt, the shortfall has become a yawning menace,...[the County] became hooked on steadily rising revenue; and now...they are suffering the sharp pangs of withdrawal.”<sup>12</sup>

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Loudoun County's plight is not unusual. Many local government officials believe the only way out of the burden imposed by prior growth is to encourage new growth. They are trapped in this contradiction by the mental model that tells them they must grow to prosper. Once local governments begin to encourage expansion to pay the depreciation costs of today's capital assets (buildings, roads, etc.), they are hooked on growth. There's no one to pay for the new infrastructure demanded by the new growth without yet another round of expansion that, in turn, will also fail to pay for itself.

Part of the problem is that cities and counties seldom budget for capital asset replacement until replacement is required. In contrast, for instance, most condominium associations (which are, in effect, small, special-service governments) anticipate the replacement of, say roofs, by setting aside a little each year. They then have a nest egg to use when a new roof is needed. Condo associations know they won't get bigger, so they don't hope that new dues-payers will cough up the price of paving when the parking lot disintegrates.

If a local government acted like a condo association, it would calculate the full annual rate of deterioration of all capital facilities and bank the replacement costs each year as facilities wear out. Current taxpayers would then be paying for what they are really using. Since virtually no local governments budget this way, they are effectively maintaining budget deficits.<sup>13</sup> Though state laws generally require local governments to balance their budgets, they don't regard capital asset deterioration as contributing to deficit.

Even Hungry and Rusty towns will need to replace their infrastructure someday. But very few towns budget ahead of time for replacement. Instead, as bridges rust, potholes proliferate, schools deteriorate, and water lines fail, they seek ways to pay these unanticipated costs. They generally seek growth.

When they find it, unless they manage it carefully, they will then face the fiscal problems experienced by Debtor and Booster towns. Their infrastructure will continue to deteriorate because they will still have not budgeted for its replacement. But now they will have a new problem: how to pay for the additional public services now required by the new growth. They will

attempt to pay these costs through property taxes levied on all property, old and new. This will raise taxes on long-time residents, most of whom experienced little or no monetary benefit from the community expansion. Then, because they don't understand the economics of growth, they too will begin to call for more growth, thinking it will relieve their tax burden.

Because most local governments effectively maintain these deficits by not budgeting for replacement costs, when growth slows even a little, they suffer the sort of fiscal crisis experienced by Loudoun County. Public assets deteriorate: for instance, roads unravel, increasing operation costs (patching crews) and external costs (everyone's tires and shocks). Blindsided elected officials attempt to treat these symptoms by reluctantly asking the electorate for higher taxes. But, unaware of the root causes of these symptoms, the voters believe that government is just inefficient and deny the tax increases. And, in a way, they're right.

An efficient local government would require that revenue from new growth be sufficient to pay for all public service and capital facility expansion demanded by the new growth, plus the wear and tear that the expansion imposes on existing infrastructure. It also would budget now for scheduled replacements. Depending on circumstances, it also would include increased costs due to congestion and sprawl. If this policy discourages home purchase by young families, then, rather than unwittingly subsidize land developers, a community can use the same money to subsidize those families explicitly, enabling them to buy homes in locations compatible with community goals. Such a policy would not expand the role of government, rather it would make government accountable by clearly identifying what is and what is not being paid for.

Some argue that impact and user fees already compel growth to pay its own way. Though they help, as currently implemented, they often charge only part of full-system costs. They often include average operations and maintenance costs but seldom reflect the higher cost of supplying distant locations or capital asset replacement costs.<sup>14</sup>

Though they may not be fully aware of the extent of the deficits created by growth, officials in many Booster towns now realize that growth

doesn't pay its way. So they begin to request certain impact fees. For instance, they'll request fees for extending sewer and water lines to a proposed subdivision. The subdivider squeals, "government interference," and may even threaten to sue. Wary of government action and lawsuits, many locals agree. If the subdivider eventually accedes to the request, officials feel relieved. They think they've done their duty despite tough objections. Yes, they've made progress. Given the lack of public awareness of these fiscal issues, they've probably done as much as the voters will tolerate. But most likely they've also ignored the incremental cost of expanding the sewer and water plants caused by the subdivision. They've also neglected to cover the additional costs that will be needed to provide schools, roads, police, and fire protection, etc., for the new subdivision. Despite their efforts, the officials have created a long-term deficit that local taxpayers will eventually have to pay.

Many special districts, such as fire and sewer, are in an even worse position. Though affected by growth, they are not allowed to assess impact fees on developers.

Adding to fiscal problems, a serious equity issue has arisen in many growing communities, especially in the rural towns to which urbanites are fleeing. The incomes of new home buyers are often substantially higher than those of existing homeowners. When the cost of new infrastructure for the newcomers is paid by all taxpayers, the effect is a subsidy for relatively rich newcomers paid by less wealthy, long-term residents. The newcomers often demand higher levels of public services than had previously existed. Worse, the prices of land, rent, and private services increase because newcomers can afford more. This increases the cost of living and often forcing long-term residents to leave.

A market economy is efficient in allocating resources only when costs are reflected in prices. But when local governments inadvertently hide the costs of expansion, they skew the market and cause inefficient and expensive allocation of resources. Disconnecting costs from benefits, they unwittingly create socialized growth.

### A Community Divided

Some community residents want growth because they benefit from it, others because

they're desperate. These people all work hard to perpetuate the community's belief that it cannot survive without expanding. The community shouldn't wonder that some people promote growth. The rules of the game give them the benefits, while imposing on the community a large portion of the public costs.

Despite the persuasion of growth advocates, some communities attempt to manage growth. The process is repeated in community after community. Local government begins to confront growth problems. Citizens organize on both sides of the issue. Tougher and more complex problems emerge more frequently. Discussions about solutions become acrimonious. Community divisions deepen and widen as cooler heads withdraw in frustration to the sidelines. Many residents, opposed to any change, don't want growth but neither do they want the local government to control growth. By opposing growth control measures, however, they allow more expansion. This, in turn, forces higher taxes, which these same residents oppose saying it's all the government's fault.

Fear of change often leads to haphazard change instead of change that can be made compatible with the community. For instance, local government allows growth to sprawl into the countryside, while voters deny school bonds meant to preserve high-quality education in the face of the influx of new students who live in the sprawl. The unintended and confusing result is change no one wants: declining quality of education, urbanization of farms, and a deteriorating sense of community. Public decision-making in growing communities often degenerates to political name-calling. For instance, growth opponents often call all growth advocates "greedy," when in many cases they are just people seeking a decent future for themselves and their children.

The other side is no better. When local elected officials discuss measures to manage expansion, growth advocates often say the officials are just interventionist liberals trying to interfere with business. This pigeon-holing of efforts to face growth issues contribute nothing to the struggle to solve local problems. Worse, they belie basic tenets of conservative political philosophy. For instance, the Republican Party's new Contract With America calls for Congress "...to live under the same budget constraints as families and busi-

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nesses.”<sup>15</sup> If local government were held to the same standard, it could not continue to accommodate growth with deficit budgeting.

Sometimes local debate gets so nasty that growth advocates call growth management advocates socialists. But, as discussed above, accommodating expansion without charging costs to actual beneficiaries is the real form of socialism. Local communities would be well served if each side of the growth debate stopped demonizing the other and focused on finding solutions that equitably serve the community. It is also important that communities realize that they need not sacrifice prosperity if they choose to slow growth.

### Alternatives

There are plenty of ways to develop an economy without growth. For instance, import replacement is a powerful means that is little used. It means producing locally what had previously been purchased from outside the community. Two excellent ways to reduce imports are supporting existing businesses and plugging the unnecessary leakage of dollars and resources from the community. These efficiency measures increase the number of times a dollar is spent in the community, thereby increasing local wealth with the same volume of exports. These measures are particularly powerful when applied to the basic necessities of energy, food, water, and housing. A town that becomes more efficient in providing the basic necessities and produces many of its necessities, locally, is far stronger and more economically resilient.

Osage, Iowa, discovered a way to develop its economy without growing. The community plugged its energy leaks and is now saving nearly \$1,000 per family per year. Money that had been spent out of town to buy gas and electricity has become, in effect, tax-free income. A total of \$1.2 million now stays in Osage each year. Much of it recirculates in the economy—strengthening local businesses without growth in community size. One local industry reduced costs 29%, all of which went to the bottom line or to plant improvements to create more jobs (i.e. development). Moreover, the program put local people to work plugging energy leaks (insulating, caulking, installing new lighting etc.). Osage’s simple program is so dramatic that it has repeatedly made nationwide news.

What happens when you try something like Osage in a big city? Big savings! Southern California Edison developed an efficiency program that saves three billion dollars each year that otherwise would have been spent on new electricity supply. The cost of the utility’s entire energy saving program was about one percent of the cost of a new power plant.

Researchers for Rocky Mountain Institute have found scores of examples of communities that curtailed leaks in their local economies. By becoming more efficient, they’ve improved the bottom line by plugging leaks in the local economy.

Support of existing businesses is another way to develop without growing. A businesswoman in Eugene, Oregon, did just that when she started a program linking local suppliers with local buyers. In its first year, “Oregon Marketplace” generated \$2.5 million in new local contracts and 100 new jobs—just by identifying the items purchased out-of-state that could be obtained locally.

The Eugene program didn’t require expansion in the scale of the community. Rather, it created more wealth by using existing resources more effectively. Like Osage, it caused locals’ dollars to be re-spent more often. Each dollar re-spent within the community provides all the benefits of a new dollar from the outside, without the negative side-effects of growth.

This is not to say that every town should seek to be entirely self-sufficient. Much of our quality of life comes from access to imported items, whether they be Florida oranges, or French perfume. But much of what we need can be better provided locally. Few of us care whether the comfort in our homes comes from burning Arabian oil or better insulating the roof. We should care, however, that the latter is cheaper, provides local jobs, and is more dependable.

### Sustainable Community Development

Osage, Eugene, and Southern California Edison are examples of sustainable development. In contrast to growth, sustainable development integrates long-term community, environmental, and economic goals. Based on reinvestment in our economy, it is a potent new approach to economic development that includes three important aspects: renewability, equity, and digestibility.

A sustainable economy is renewable in that it uses resources no faster than they can be replen-

ished. For instance, logging towns will become ghost towns if they cut their timber faster than it grows back. Agricultural towns will ease themselves out of business if their production level removes more nutrients from the soil than are replaced. Retirement and resort towns whose expansion results in urban pollution and congestion will grow themselves out of their source of tourist dollars.

The natural resources of these communities—timber, soil, and quality of life—are their capital assets. The problem is that some communities are using their capital assets as if they were income—which is like dairy farmers' selling their cows to buy feed. Soon there will be no cows to feed. When we deplete our resources, we're treating our community as if it's a business in liquidation. We spend the income, then bequeath the mess to our children.

That's where the second aspect of sustainable development comes in: equity among generations. If a local economy is based on the depletion of an important local asset, for instance soil nutrients, then future generations will not be able to make a living in the same way. Unsustainable expansion defers costs to be paid later, creating an uncertain or diminished future for our children.

Equity among different people is also part of sustainable development. If the location of a hazardous materials dump makes the neighbors sick, then that particular expansion is inequitable. The neighbors are paying some of the costs of the dump without receiving benefits.

The "digestible" aspect of sustainable development is the recognition that development is not a straight line from harvest or extraction through production to consumption to disposal, but a circle that eliminates the disposal step and returns by-products of production and consumption to the system. When by-products are dumped at the end of the straight line, they are regarded as waste (which hinders development by imposing ever-increasing costs). In contrast, when by-products are reused, recycled, or biodegraded, they become resources—capital to sustain the development cycle.

The "straight-line" perspective on development leaves out the environment; the cyclical view includes it. Though environmental concerns were once seen as narrowly focused on trees

and little furry creatures, they are essential for long-term economic health.

### The Next Step to Sustainable Development

Successful communities are those that accept neither unquestioned growth nor the inevitability of decline. They seek a middle path by moving aggressively on two fronts. First, they proactively seek sustainable projects to develop their local economy, such as the work done by Osage, Iowa.

Second, they seek more sophisticated ways to deal with the growth proposals they face. Many towns are already evaluating expansion proposals to determine if they are fiscally responsible, environmentally sound, and compatible with the local community. Though these concerns are important, they tend to focus primarily on the short term. Effective criteria include an examination of the sustainability of growth proposals.

Though some proposals for expansions are clearly unsustainable, determination of what is sustainable is difficult. However, to avoid the grief of unintended or unforeseen consequences, it's worth asking the following questions before mistakes are made. Would the proposal:

- use local resources faster than they can be replenished or replaced?
- impose disproportionate costs on those who receive little or no benefit?
- be one in the series of town expansions that together would lead to an unsustainable future?
- produce products and by-products that are reusable, recyclable, or biodegradable? (Not only does a yes answer indicate a way to reduce pollution; it also indicates the potential for more job creation through, for instance, processing of wastes into valuable by products, or redesigning the process to eliminate waste altogether.)

### Conclusion

This paper shows that, while growth was once seen as the only track to prosperity, the evidence should turn thoughtful citizens to the path of sustainable development. It offers alternatives to common assumptions about growth and development. It is, however, only a brief introduction. The challenges it discusses are sufficiently complex to justify entire chapters, each ripe with examples and exceptions. The questions it raises have no easy answers.

The drama being played out in overgrown

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communities—the controversy, the social and environmental side-effects of growth—is not isolated to a few places. It's playing in communities across the planet as the global economy touches each individual's life, as the population swells, as cheap resources become scarcer, and as formerly free places to dump our waste become increasingly expensive. The global perspective makes it clear that, if our development strategies are not sustainable, they will be terminal.

But within this crisis are substantial opportunities and solid reasons for hope. Increasing numbers of citizens in overgrown communities are unwilling to drown passively in someone else's prosperity. Committed people are speaking out for humane and sustainable development, the kind of economic activity on which future generations can thrive. Increasingly, they find that others are listening.

*Before working with the Economic Renewal Program at Rocky Mountain Institute, Michael J. Kinsley served as an elected official in a rapidly growing community. L. Hunter Lovins is the President of RMI and co-creator of its Economic Renewal Program. RMI welcomes comments on this paper.*

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