TESTIMONY

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TRANSIT-ORIENTED DEVELOPMENT:

THE ECONOMIC DEVELOPMENT MYTH

By Kacie Galbraith

Testimony Before the East-West Gateway Council of Governments

Four out of five Americans prefer having a home with a yard to living near shops, transit, or jobs.

To the Honorable Members of This Council:

Ladies and gentlemen, thank you for the opportunity to offer my testimony. My name is Kacie Galbraith and I am a policy researcher for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research and analysis that the Show-Me Institute has conducted and reviewed concerning transit-oriented development (TOD).

Government planners are steadily increasing their use of TOD. However, contrary to one of the central tenets of TOD, surveys indicate that most people do not want to be forced into high-rise apartments in a busy urban environment. Four out of five Americans prefer having a home with a yard to living near shops, transit, or jobs.[1] So what is the rationale for using taxpayer money to support retail and other development along public transit lines? Planners may think it is best for us to live in high-rise apartments and take transit everywhere, even though we do not want to; but individuals should be able to freely decide where to live, how to travel, or where to open a business.

When government dictates development patterns, it forces taxpayers to pay for projects that they may not want, without guaranteeing that the project will succeed. In doing so, the government forces taxpayers to assume the risk that, ordinarily, a business would have to undertake when investing in a new location. At first glance, this may seem helpful in encouraging business investment. But who ultimately bears the loss if the business fails?

Almost all U.S. transit-oriented developments along rail transit lines are heavily subsidized and would not have been built without those subsidies.[2] For example, developers in Portland, Ore., only built developments along the city's light rail line after the city began offering subsidies in 1996, 10 years after the line began operating.[3] Subsidizing these developers was unfair and an unnecessary cost for Portland taxpayers because the market did not demand these developments.

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Previous research from the East-West Gateway Council of Governments (EWGCOG), which is sponsoring the Saint Louis regional TOD study, shows that subsidizing private development has not helped the Saint Louis region.

Furthermore, it is particularly inappropriate for government to subsidize development because the data shows that it is ineffective. Previous research from the East-West Gateway Council of Governments (EWGCOG), which is sponsoring the Saint Louis regional TOD study, shows that subsidizing private development has not helped the Saint Louis region.[4] In fact, the previous study found that subsidizing retail is not an effective economic development tool and negatively affects neighboring municipalities, hurting the region as a whole.[5] So, why then is the EWGCOG paying to study something it has already found to be harmful?

TOD may appear to be promoting growth, but it is simply not a valuable economic development tool. At best, TOD causes a shift in economic wealth from one area to another with no resulting net increase for the region. There are three reasons for this:

1. If there is not high demand for the development, the new stores will only take sales from other nearby competitors. For example, there is a Walmart about 3.7 miles from the North Hanley Metro station, and there are several other Walmarts nearby. If you build a new Walmart at the North Hanley station, some of the existing customers will shop at the new store. But the total number of shoppers remains basically unchanged because there are already enough Walmarts to satisfy consumer demand. Therefore, there is no net increase in total shopping, and no increase in sales tax revenue. Sales tax revenue will increase in the TOD location, but will decrease in neighboring municipalities. TOD will obviously result in some job creation, but at the very high price of the cost of developer subsidies.[6]

2. Some businesses may move into the TOD area because subsidies make it less expensive than their current location. But, relocating businesses will not create new economic value for the state. Only those few businesses that move will benefit from the subsidies that provide them with a cheaper location.

3. TOD is often subject to undesirable political influence like we have seen in the controversial Meridian development in Brentwood, where spaces in a parking garage ended up costing $15,000 each to construct.[7] Because of political interference, resources may not be used efficiently.

If TOD has failed in the past, why do planners continue to pursue this type of development? Russell Roberts, an economics professor at George Mason University, offers a possible explanation. He notes that we all "want to change outcomes without consequences with the ease of adjusting the thermostat on the wall of our house."[8] However, he also explains that the economy cannot be controlled in that way, no matter how much we may want to have that control. His basis is Austrian economist Friedrich Hayek's famous description of the economy as the product of human action but not of human design. Just because we build more stores in a targeted location, it does not mean that more people will start shopping. Just because the government creates shops and housing around a Metro station, it does not mean that more people will want to ride the Metro.

The truth is, the areas being considered for TOD are already subsidized with quality roads, transit, and parking. Do we really need to subsidize the stores that go in there as well? If a commercial or residential development cannot stand on its own, then it probably should not be built. East-West Gateway is correct in stating that subsidizing developers does not stimulate real growth.[9] The Saint Louis region will not experience lasting benefits from TOD and must explore other options to promote regional growth.

Notes

[1] Survey referenced in a Cato Institute transportation subsidy report by Randal O'Toole. Online here: http://www.downsizinggovernment.org/transportation/urban-transit#_edn44.

[2] Notable examples include Columbus, Ohio; Denver, Colo.; and Carrollton, Texas. Online here: http://www.cato.org/sites/cato.org/files/pubs/pdf/pa663.pdf.

[3] Ibid.

[4] The East-West Gateway Council of Governments (EWGCOG) and its partners have selected five stations to complete detailed station area plans for TOD development: Emerson Park/Jackie Joyner Kersee, Fairview Heights, North Hanley, Maplewood/Sunnen, and Union Station. Information can be found online here: http://www.stlouistod.com/.

[5] These items were included as 'key items' from the final report on the use of development incentives in the Saint Louis region. Online here: http://www.ewgateway.org/pdffiles/library/dirr/TIFDevIncentivesSum.pdf.

[6] Other Saint Louis development incentives created jobs at a cost of about $370,000 per job. Online here: http://www.ewgateway.org/pdffiles/library/dirr/TIFDevIncentivesSum.pdf

[7] Metro chief executive initially rejected proposal as too high. Online here: http://www.stltoday.com/news/local/metro/metro-purchase-of-garage-in-brentwood-is-questioned/article_ef4016b5-3f4a-54ed-b790-665e27c86f3a.html.

[8] Article on the reality of economic markets. Online here: http://www.econlib.org/library/Columns/y2005/Robertsmarkets.html.

[9] From An Assessment of the Effectiveness and Fiscal Impacts of the Use of Development Incentives in the St. Louis Region: "This research documents that the use of these tax incentives has been ineffective both as a way to increase regional sales tax revenue or to produce a significant increase in quality jobs. It also clearly has not helped municipalities avoid fiscal stress or had a general beneficial economic impact on the region." Online here: http://www.ewgateway.org/pdffiles/library/dirr/TIFFinalRpt.pdf.

Just because the government creates shops and housing around a Metro station, it does not mean that more people will want to ride the Metro.

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