

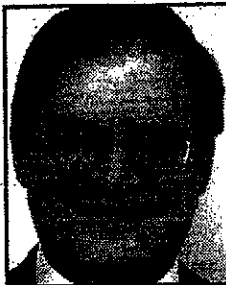
Time to Examine "Smart Growth," "Smart Taxes"

At this year's annual Business Forecast Luncheon hosted by the University of Arkansas Center for Business and Economic Research, Director Jeff Collins reported that between the years 1995 and 2005, 66,236 new jobs, representing 62 percent of all the employment growth in Arkansas, were created in Benton and Washington counties. These are remarkable statistics. These figures demonstrate not only the amount of growth in this region but also the relative impact to the rest of Arkansas.

Many in Northwest Arkansas greet news of more growth with much elation. Others are not so sure. A businesswoman at the luncheon expressed her reservations about all this growth. She said Northwest Arkansas is certainly a much different place than when she and her husband started their business in the early 1970s. Not all of it, in her opinion, was for the better.

As Northwest Arkansas continues to grow in population and economic development, some might ask the question, "Is all this growth good or bad for the region?" From an economist's point of view, it would be more useful or productive to ask this question in a different way. We might ask, instead, "What are the costs and benefits of growth?" We should also ask, "How can we reduce the costs and increase the benefits?"

Growth in Northwest Arkansas and in all economies, indeed, provides many benefits. Some of the benefits often mentioned include the rise of new jobs, new income, new tax revenue, and higher



**Paul
Justus**

Analysis

property values. Growth also provides additional choices pertaining to life and work, lowers the cost of goods and services, and provides more consumer choices, employment options, and social diversity. Economic growth adds to our "quality-of-life" in many ways.

However, too much of a good thing can turn counterproductive. Some of the costs of growth include the cost of new public infrastructure; the cost of more public services (such as fire and police protection); the loss of natural landscapes, habitats and ecological services; increases in land, air, and water pollution; and increased traffic congestion. In this column, I previously reported that the updated Northwest Arkansas Long Range Transportation Planning process has identified nearly \$2 billion in transportation needs but projects less than \$500 million in identifiable funding levels. Without the proposed road infrastructure, Northwest Arkansas residents can expect to pay more in terms of traffic congestion costs.

Whether or not one believes that the costs of growth are beginning to exceed the benefits, human population growth will continue in the foreseeable future. According to population expert Joel E.

Cohen in an article in the September issue of *Scientific American*, our world population will grow from the current 6.5 billion to between 7.1 billion to 11.1 billion by the year 2050. Most of this population growth will take

place in developing countries. Due to lower fertility rates, especially as developing countries industrialize, growth rates are declining.

However, to put things into perspective, an anticipated increase of 2.6 billion people by the year 2050 will exceed the total population of the world in 1950, which was 2.5

billion.

In a reaction to rapid growth and associated costs, some organizations, including the American Planning Association, have endorsed the concept of "Smart Growth." Smart Growth is a planning concept with varying interpretations of what it means. However the Environmental Protection Agency provides a list of ten principles that give a good idea of what Smart Growth stands for.

Smart Growth Principles include:

- Mix land uses.
- Take advantage of compact building design.
- Create a range of housing opportuni-

ties and choices.

- Create walkable neighborhoods.
- Foster distinctive, attractive communities with a strong sense of place.
- Preserve open space, farmland, natural beauty and critical environmental areas.
- Strengthen and direct development towards existing communities.
- Provide a variety of transportation choices.
- Make development decisions predictable, fair and cost effective.
- Encourage community and stakeholder collaboration in development decisions.

Smart Growth advocates support development patterns that will reduce the costs and increase the benefits of growth. Smart Growth advocates, in order to implement their concepts, usually resort to tools such as legislative actions, design standards and city ordinances. However, some people propose that Smart Growth advocates adopt other types of tools that harness economic forces to reduce the costs of growth. Such tools, which would involve shifting taxes off production and onto the use of natural resources, could be called "Smart Taxes."

Advocates of Smart Taxes believe that we tax the wrong things. Instead of taxing paychecks and enterprise, which dampens productivity and human effort, we should be taxing things like pollution, resource depletion and even traffic congestion. A smart tax system would gradually reduce or eliminate many existing taxes such as payroll, sales and building property taxes, which are hard on the middle-class and

poor. It would also shift taxes off corporate income, business activity, and the personal income tax. Instead, it would gradually phase in taxes or fees on pollution, carbon emission and resource consumption.

Congestion pricing might be considered one form of "Smart Taxing." To ease traffic congestion, some traffic planners propose that drivers would be charged to use busy roads at busy times. Such a charge would harness market forces to help ease congestion. Research indicates that motorists respond by driving at nonpeak periods, carpooling or taking transit. This response improves traffic flow and travel time. In addition, cities need less new infrastructure because the number of drivers is spread more evenly throughout the day. With less need for roads, taxpayers save money.

Smart Tax advocates suggest a variety of ways to shift taxes off things we want and onto things we don't want. In order to meet the needs of the projected growth in Northwest Arkansas and around the world, it would not be wise for governments to continue taxing human effort or production. However, by charging fees for pollution and resource depletion, we would see increased production of resource conserving technologies and products. It may be a long while before Northwest Arkansas begins to see a systematic implementation of "Smart Tax Shifting" as with congestion pricing. However, given past growth figures, future projections, and limited funding, it may not be too soon to begin a discussion. ■