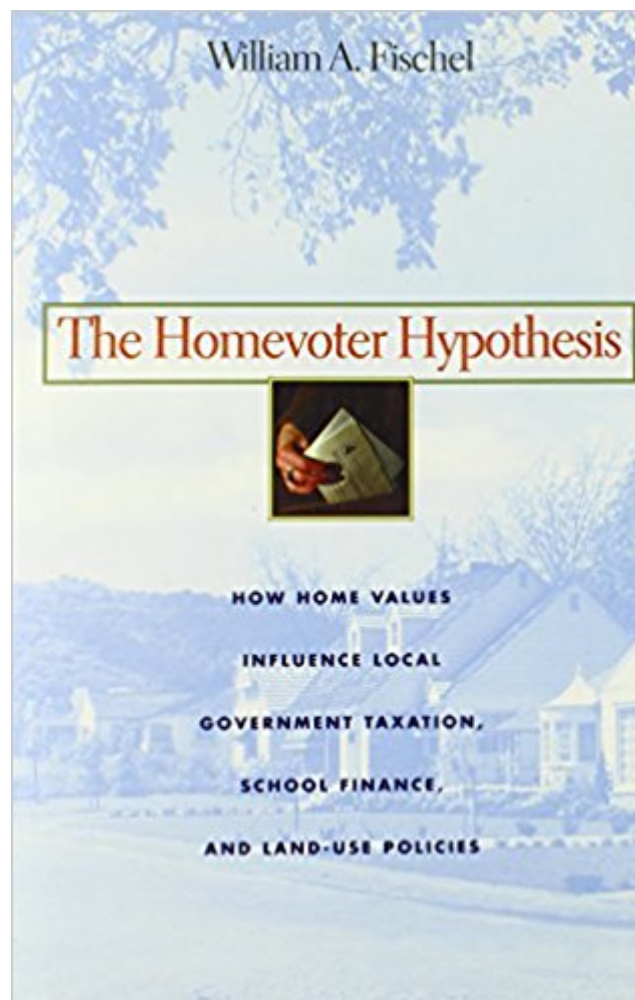




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The Homevoter Hypothesis: How Home Values Influence Local Government Taxation, School Finance, And Land-Use Policies



Synopsis

Just as investors want the companies they hold equity in to do well, homeowners have a financial interest in the success of their communities. If neighborhood schools are good, if property taxes and crime rates are low, then the value of the homeowner's principal asset—his home—will rise. Thus, as William Fischel shows, homeowners become watchful citizens of local government, not merely to improve their quality of life, but also to counteract the risk to their largest asset, a risk that cannot be diversified. Meanwhile, their vigilance promotes a municipal governance that provides services more efficiently than do the state or national government. Fischel has coined the portmanteau word "homevoter" to crystallize the connection between homeownership and political involvement. The link neatly explains several vexing puzzles, such as why displacement of local taxation by state funds reduces school quality and why local governments are more likely to be efficient providers of environmental amenities. The Homevoter Hypothesis thereby makes a strong case for decentralization of the fiscal and regulatory functions of government.

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Customer Reviews

Although other commentators have bemoaned voter apathy and the lack of civic engagement, Fischel shows how democracy thrives at the local level. As the "homevoter" looks at all the factors that affect property values—good schools, effective management of traffic, fewer undesirable uses such as landfills and prisons—he or she becomes politically

engaged. The Homevoter Hypothesis [is] an important contribution to the ongoing conversation about how best to manage growth. (Anthony Flint Boston Globe 2001-12-27) Fischel describes homevoters as homeowners whose votes determine the character of local government. From their ranks comes the median voter, whose needs are most likely to be met by democratically elected officials. Fiscal efficiency in local government, Fischel argues, requires close correspondence between taxes and the services they fund. Fischel rounds out his brief for local government with examples, anecdotes, and further suggestions for reform. Though best characterized as advocacy economics, the work is well documented and thoroughly researched, encouraging the diligent reader to engage in the debate. Recommended. (R. S. Hewett Choice 2002-05-01) The Homevoter Hypothesis is a valuable contribution to debates over how to allocate land use and environmental regulatory authority among the federal, state, regional, and local governments. Fischel brings sorely needed balance to those debates. He systematically builds a theory favoring local control over land use by bringing a large and wide-ranging literature to bear on the problems of localism versus federalism. It is a very important book. (Vicki Been, New York University School of Law) The Homevoter Hypothesis was a pleasure to read. Fischel has a unique style for an economist. This book is full of anecdotes and personal observations, yet underlying these stories and observations is very impressive scholarship. Fischel has read and internalized everything worth reading in this area, and this scholarship comes through very clearly. This book shows a different and refreshing perspective; it is rich in detail and content, but also very coherent. (Jon Sonstelie, University of California, Santa Barbara)

The Homevoter Hypothesis is a valuable contribution to debates over how to allocate land use and environmental regulatory authority among the federal, state, regional, and local governments. Fischel brings sorely needed balance to those debates. He systematically builds a theory favoring local control over land use by bringing a large and wide-ranging literature to bear on the problems of localism versus federalism. It is a very important book. (Vicki Been, New York University School of Law) --This text refers to an out of print or unavailable edition of this title.

The "homevoter hypothesis" of this book is that local governments make land use decisions based on the views of the typical homeowner. Because a house is a large and illiquid investment, a "homevoter" (Fischel's word for a home-owning voter) often focuses not on maximizing property values, but on reducing the risk of a decline in property values. As a result, homevoter-dominated local governments shun new

residential development (especially apartments or anything that might bring in poor people) or commercial development near housing, because even if those developments aren't going to reduce property values, why take the chance? In addition, homevoters prefer small suburbs to consolidated regional governments, because larger governments might favor the broad public interest in new housing over homevoters' neighborhood concerns. Generally, Fischel seems to think that this is fine. For example, he thinks that homevoters are likely to maximize environmental protection, because pollution is bad for property values. Fischel rejects "environmental justice" claims based on the proximity of polluters to poor neighborhoods, reasoning that these neighborhoods benefit from cheaper housing, bigger commercial tax bases and closer proximity to jobs. Fischel also defends use of local property taxes to fund education, because good schools help property values, so homevoters will be willing to support high property taxes in order to improve schools. Fischel thus attacks attempts to equalize school finances between property-rich and property-poor towns; as he points out, property-poor towns are not always full of poor people, since troubled urban areas often have fairly strong commercial tax bases. Although he admits that the data on this issue is ambiguous, he further claims that in pro-equalization states, many towns spend less on education and thus suffer from weaker schools. But if I understand Fischel correctly, he does not seem to think that increased state subsidies to poor cities did not improve education. But how can it be the case that more spending is good when tax money goes to rich suburban schools, yet not so good when it goes to poor schools? More broadly, Fischel doesn't seem particularly interested in failed municipalities- poor cities that, despite having adopted zoning decades ago, don't seem able to preserve property values or retain middle-class residents. Fischel does admit in the last chapter or so that homevoters are likely to underprovide transit-accessible housing and housing for the poor. Given the popularity of homevoter-oriented zoning, he does not propose aggressive remedies for these problems, but instead endorses a variety of modest proposals that are more politically feasible but may be only slightly helpful. For example, he proposes improving education for the poor by creating "public-school supplements" for low-income families, payable directly to the public schools of their towns of residence. Ideally, suburbs will be willing to allow low-income housing in exchange for the extra money.

This makes a great required second book in a local government/administration course. As a matter of fact, it should be required reading for city councilmen all over America. Fischel does a good job of

proving the "people vote with their feet" hypothesis, but more importantly, he ties property values to virtually every local government action (and inaction). Virtually everything that city government does is capitalized into property values -- sometimes with negative effects and sometimes with positive effects. Americans are extremely mobile, moving every 4 years, so we really do vote with our feet to a greater extent than most city governments care to accept.

One of the best books on local government I have read. The core thesis is straightforward yet explains so much about why cities make the planning and growth decisions they do. Stylistically, this is a somewhat easier and more digestible read than you might expect. The tone is more that of an interesting graduate seminar than a dry economics course. I particularly enjoyed the focus on local government history/ political economy in California and Washington state. If you live in a city or suburb with growth issues you will find this relevant and provocative.

There are scads of good books on state and Federal government, but few on local government. William Fischel's *The Homevoter Hypothesis* is an exception and is an apparent classic on local government. Fischel's book advances more than an "hypothesis." It is a "correlation" that convincingly describes from case studies and case law how real estate economics drives local government. Fischel reports that housing equity in the U.S. is eleven times as large as liquid assets among all homeowners. Home equity value is the largest asset of private wealth. But this equity value is constantly under threat from external forces ("externalities") beyond the control of property owners except by government intervention. Homes are an immovable asset whose value can't be insured against a wipeout of equity. Homeowners will consent to the impositions of municipal and school district financing, zoning, growth controls, and environmental regulations only to the extent that they protect home values, or can be "capitalized" (converted) into higher property values. Fischel advances what he calls the "Tiebout Hypothesis" (from Charles Tiebout) that "people vote with their feet" by moving or shopping for a locality to maximize their wealth. Actually, because real estate is an immobile asset, Fischel's theorem might be more accurately restated as "people put their feet to the vote" or "stake their home value to the vote." Fischel sometimes uses elegant terms ("homevoter," "unlovely land uses"), classical phrases ("people who buy houses are more careful about it than almost any other transaction, save perhaps getting married"), and even employs a reverse golden rule of sorts ("municipalities will foist disamenities on their neighbor that they would not do unto themselves"). Sometimes Fischel uses blunt summarization such as when he writes that the "Smart Growth Movement" and growth controls "seem to act more like a cartel for those already

in possession of suburban homes than as a rationalizer of metropolitan development patterns." Fischel includes helpful subheadings in each chapter, reminiscent of Machiavelli's classic *The Prince*, that succinctly tell you what he is driving at. Unlike most economics texts, there are no obfuscating "supply and demand" tables in this book. My only disappointment with the book is that Fischel did not go far enough. For instance, what just compensation is to be provided to landowners whose property has been downzoned for environmental preservation by local government, then acquired by a state or federal agency, or a non-government organization (NGO), for the same preservation use for which it was downzoned? When local government downzones a property to buy it on the cheap it is typically considered a confiscatory taking. What is the difference when two levels of government act in concert to accomplish the same thing, both in response to the same incumbent home voting constituency? Moreover, such interference with real estate markets often results in a situation where there no longer is available any land sales market data from which to determine the value of a property, except government and non-government organization sales that can not be considered under government real estate appraisal standards (see reviewer's "Valuing Nature Land in 'Extinct' Markets," *Appraisal Journal*, 1998). Another example would be toxic waste site cleanup policies that are less concerned with the "health effects" than "wealth effects" to surrounding property values (see reviewer's "But is it Market Value?" *Appraisal Journal*, 1999 and "The Externality Principle: Value Transfers from Toxic Waste Site Cleanups as a Basis for Regulatory Takings," *Environmental Claims Journal*, 2001). How can "people vote with their feet" when growth controls are meant to put one's feet in cement so to speak? Perhaps Fischel will follow up with a sequel that can address such dilemmas in greater depth? *The Homevoter Hypothesis* is an indispensable book for city managers, local politicians, zoning and school boards, and the legal and real estate professions. I give it an unqualified highest rating. Wayne Lusvardi

The opinions expressed above are solely those of the reviewer.

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