

THE NEGATIVE IMPACT OF GOVERNMENTAL POLICIES ON THE BUILT ENVIRONMENT

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ABSTRACT

Governmental intervention into the economy has exacerbated the negative effects of the energy crisis on the built environment.

Examples considered include three explicit attempted ameliorations of the problem, and two programs originally intended for other purposes, but with harmful impacts on the built environment. These include:

- I. construction insulation subsidies;
- II. building codes requiring operating windows;
- III. encouragement of solar, wind power;
- IV. zoning legislation; and
- V. rent control.

Facing the international economies in the 1980s is the problem of supplying adequate housing, at affordable prices. Skyrocketing oil costs, moreover, preclude energy-using or energy-intensive housing strategies on a large scale.

Given this difficult economic environment, governments the world over have enacted policies specifically aimed at the alleviation of the impact of the energy crisis on housing. These have included: I. subsidies for extra building insulation; II. requirements that (office) buildings be constructed with operating windows (to economize on air conditioning demands; III. encouragement for the creation of solar power and other alternative or "soft path" energy sources both in new construction and as additions to existing dwellings.

In addition, governments have enacted legislation which while aimed at other social-economic objectives, have serious repercussions on the on the energy-built environment crisis. These include IV. zoning (which alters the locational settlement patterns, and has consequent implications for energy demands needed for office - home travel; and V. rent control (which discourages new residential rental unit construction, and speeds up the deterioration of older structures).

It shall be the thesis of this paper that these basically well intentioned programs

- 1) do not efficiently accomplish their own announced goals, and in many cases even retard their achievement;
- 2) have unintended and deleterious consequences on unrelated markets; and
- 3) that the price system, if allowed to operate, is tailor-made to coordinate the efforts of the economy to adjust to an increase in the relative prices of energy inputs.

I. There is no doubt that higher fuel costs lead to the type of housing construction which economizes on this particular expenditure. Such activity is indeed derivable from the basic axioms of economics. According to the law of downward sloping demand, as the price of heating oil rises, less of it will be demanded. And according to the law of substitution, if less fuel is purchased, other items will be bought instead, in an attempt to recoup lost utility. One of the ways of maintaining a given level of internal temperature with less fuel is install more building insulation. This is among the market's responses to an oil shortage. We can illustrate this with

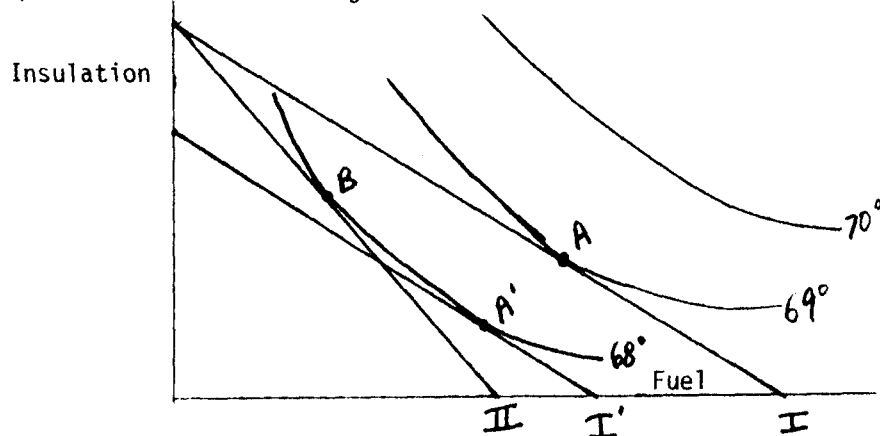


Diagram #1

an isoquant diagram, showing how various temperature outputs are related to building insulation and fuel inputs, holding constant all other determinants such as age and exterior construction of building, care in keeping windows and doors shut, efficiency of heating equipment etc. Starting off with the isocost line I, the consumer finds his optimal consumption point of A. When the relative price of fuel with respect to insulation rises (Budget line II), his equilibrium point shifts to B, a move, as can be expected, from the more

expensive to the less expensive input.¹

The difficulty with a government subsidy of building insulation because of a rise in the relative price of fuel is that, as we have seen, each individual already has an incentive to economize on the now more expensive oil, and to substitute the proper construction materials in order to maintain temperature levels. If the government comes along with additional encouragement for this movement, it will lead to an overoptimal shift in this direction.

Nor is there much weight that can be given, in this case, to a possible counterargument based on monopoly or externalities, the usual justifications made for government interference with market allocation. For at the old resource allocation, the one predating the oil price rise (point A in diagram #1) there was never any justified criticism put forth on these grounds. To use the monopoly or externalities argument now, in defense of vetoing choices arrived at in the marketplace, would be to imply that these phenomena are relevant for a price change, but not to industries where prices are relatively stable. But no such argument has ever been offered in behalf of monopoly or externalities.²

II. A similar analysis applies to the builder's decision with regard to including operating windows in new construction. In favor of these old fashioned devices are the economies which can be attained in avoiding air conditioning expenses on days in which an open window will serve just as well. On the other side are ranged aesthetic considerations, and savings which can be effected at the time of the initial investment (glass walls have fewer moving parts and are thus cheaper to build, than walls with operating windows).

At the time before the OPEC-inspired quadrupling of oil prices, the non-windows option may have made better sense. But in an era of high energy costs, the fuel savings, because of lessened air conditioning usage throughout the entire life of the building, may outweigh the extra initial investment in windows. (All stocks and flows discounted by a suitable rate of interest.) It may even, in extreme cases, justify window installation after a building has been in operation.

The case for government non-interference in this decision is not that the private entrepreneur cannot make mistakes. From the ex ante vantage point

¹ We assume all goods to be "normal", that is, to have positive income elasticities.

² If anything, the situation is the very opposite. Take the monopoly argument, for example. If the view that monopoly brings about inefficient resource allocation has any application at all, it is to the static model of reality where prices, among other things, do not change. It would not apply to the dynamic model with anything of the same force if at all. See, in this regard, Israel Kirzner, Competition & Entrepreneurship (Chicago: University of Chicago, 1973); Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York: Harper & Row, 1962); Murray N. Rothbard, Man, Economy and State (Los Angeles: Nash Publishing, 1970) chapter 10; Walter Block, "Austrian Monopoly Theory - A Critique", Journal of Libertarian Studies, Volume 1, Number 4 (1977).

of high fuel costs, the market's non-inclusion of windows in the cases of hundreds and even thousands of office and residential towers can be seen to be in error. Had these private investors been able to foretell the future in this regard, they would have gladly included windows in their buildings. Nor can it be denied that there are bureaucrats who might have been able to make better decisions -- even in the absence of any such advance knowledge.

The case for leaving control of the built environment in the hands of markets, not governments, is solely³ that when the businessman makes an error, he loses financially, thereby, and if he chooses wrongly too often, or on large projects, he is forced into bankruptcy and must divert his energies into other areas.⁴ This has a "chilling effect", to say the least, on the continuation of entrepreneurial error.

The contrast with the government sector is stark indeed. When the bureaucrat invests public funds ineffectively, or when the politician passes a law which creates large scale financial losses, no automatic feedback mechanism comes into play. Public decision makers risk the money of other people (taxpayers) and need not suffer any personal financial reverses as a result of error.

The conclusion of this section, then, is that despite the possibility of entrepreneurial error in building glass walled skyscrapers right before an era of high fuel prices, it would be unwise to substitute the judgment of the government which is artificially protected from market forces. There is always the distinct possibility that after compelling or subsidizing the inclusion of operating windows in new construction, a new era of low fuel prices may come along and upset present bureaucratic calculations. And if the present energy price trends continue, the entrepreneur is as fully capable as anyone else of judging the merits of operating windows -- and risks only his own money in his decision.⁵

³ We abstract, here, from the moral justifications for the operation of private property rights. See in this regard, Robert Nozick, Anarchy, State and Utopia (New York: Basic Books, 1974) and Murray N. Rothbard, For a New Liberty (New York: Macmillan, 1973).

⁴ We abstract from cases such as the Lockheed or Chrysler bailouts, which of course are not examples of the operation of free markets. In such instances, consumer sovereignty has been abrogated. The market has rejected the products of these corporations, but this choice has been short-circuited by a government decision to force people to pay as taxpayers what they had refused to purchase as customers.

⁵ To be sure, there are externality effects in this case, since some of the costs of operating an air conditioner spill over to third parties in the form of uncomfortable and unasked for extra heat. It might appear that this would give scope for government intervention -- for example, a special air conditioner tax. But the external diseconomy arises, here, because of incomplete specification of private property rights: the streets are unowned. This case is not one of "market failure", but one in which the competitive enterprise system has been precluded from operating. If metropolitan streets were allowed to be privately owned, there would be no heat spill over effects of air conditioning upon third parties. The external diseconomy effect would be banished in one fell swoop. The heat would pertain to second parties, the

