

# RULES, NOT RESOURCES

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**C**ommunity development policy, at least at the federal level, has continued to approach poverty as if it were the result of a lack of resources: if communities are poor, give them income, and if infrastructure is lacking, have higher levels of government fund more of it. Here, by contrast, I take the approach that the fundamental problem facing poor communities in America is poor governance and not a lack of resources. In other words, the existing resources available to community development would be more than enough to revitalize struggling communities across the country if local governments were run better, allowing the market to work more efficiently to provide the goods and services communities need.

The existing framework of community development programs focuses more on the redistribution of wealth, rather than wealth creation. Yet we have examples of some cities that have shifted

their emphasis toward responsible management and away from redistribution. These cities have witnessed some renaissance, while those that have continued to function largely as transfer states have fallen behind.

There is a tendency in American politics to associate governmental redistribution of wealth with transfers from the wealthy to the poor. That happens sometimes (e.g., the Earned Income Tax Credit), but too often temporary majorities transfer wealth to themselves from temporary minorities. In the parlance of economics and political science, the concern of this essay is with redistribution that is “rent-seeking” rather than the provision of a social safety net.<sup>1</sup> Not to be confused with “rents” in the housing sense, rent-seeking is comprised of expending resources to capture wealth rather than create wealth. Examples could include activities intended to influence government officials (lobbying) or limiting the access of occupations or other lines of business in order to create monopoly “rents.” And the sums of government funds that are subject to rent-seeking are massive. Consider that the budget of the U.S. Department of Housing and Urban Development (HUD) has totaled more than \$1 trillion over the nearly 50-year life of the agency (nominal dollars). That’s enough to have purchased outright more than one-third of the existing rental stock in the country.

The point of the preceding is not to argue that federal community development and housing funding have been well-spent or that such subsidies have even flowed thorough to their ultimate intended recipients, but to show that we have expended a tremendous amount of resources toward this effort with, at best, questionable results. Given these staggering amounts, the burden of proof should rest on those who advocate for even more spending.

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1 The seminal works on rent-seeking are Anne Krueger, “The Political Economy of the Rent-Seeking Society,” *American Economic Review* 64 (3) (1974): 291–303; and Gordon Tullock, “The Welfare Costs of Tariffs, Monopolies, and Theft,” *Western Economic Journal* 5 (3) (1967): 224–232.

## BEYOND MAJORITARIAN POLITICS

Despite a long history of urban scandals and corruption,<sup>2</sup> community development continues as largely an engineering exercise to some. Once the right answer is properly formulated, good government only need implement it, the argument goes. What I claim here is that policy on the ground is rarely that clean and neat. It often involves political coalitions and special interests, jockeying for advantage.

To illuminate, one can conceive of local government as individuals, or coalitions, coming together to provide a basket of public goods, which could include a social safety net. The game matrix below, although highly stylized, displays the choice environment.

		Coalition I	
		A	B
Coalition II	A	10, 10	3, 12
	B	12, 3	5, 5

If both coalitions cooperate and choose action A, then social welfare is maximized. Collective action will have improved social well-being. In the context of local government, this would represent a situation in which public officials provide a high-quality bundle of services in a nondiscriminatory manner at a reasonable cost. All citizens, or in the game matrix members of both coalitions I and II, have equal and fair access to locally provided public goods.

The problem is that the outcome of both coalitions choosing action A is not a stable situation (or “Nash” equilibrium).<sup>3</sup> One can think of each coalition taking a set turn at governing.

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2 For a recent example, see Abby Sewell and Jessica Garrison, “Corruption Can Leave Cities with Enormous Legal Bills,” *Los Angeles Times*, April 18, 2012, available at <http://latimes.com/news/local/la-me-city-attorney-spending-20120418,0,1261390.story>.

3 John F. Nash, “Equilibrium Points in N-Person Games,” *Proceedings of the National Academy of Sciences* 36 (1) (1950): 48–49. See more generally Martin Osborne and Ariel Rubinstein, *A Course in Game Theory* (Cambridge, MA: MIT Press, 1994).

Coalition I governs for one period, then coalition II governs the next, and so on. If both coalitions choose A, which we can call the “broader public interest” position, then social welfare is again maximized over time. The temptation, however, for a coalition to instead choose action B dominates the choice of action A. Think of B as using their term at governance to enrich members of their coalition at the expense of the public good. The out-of-power, or minority, coalition may still receive positive benefits, as illustrated in the payoff matrix, but now the distribution of public benefits is grossly unequal. When the other coalition gains control, its incentives are also to choose action B. Whereas action A was called the “broader public interest” choice, we can think of B as the “Tammany Hall” choice, where governing coalitions use power to enrich themselves at the expense of the out-coalitions.<sup>4</sup>

The above results could continue to hold even in the face of entrenched coalitions without turnover. For instance, throughout much of U.S. history, southern cities and states were governed for the benefit of white citizens, while African Americans were largely exploited in order to benefit the governing coalitions. If African Americans had not attained the ability to move out of the South or if external pressure had not been placed on the governing coalitions of the South, the off-diagonal outcome of (A, B) would likely have lasted considerably longer. Therefore, to generalize the game matrix, action B could be seen as either exit or exploit. One could also envision the opening up of governance in southern cities to African Americans as a belated recognition by the governing coalition that they were stuck in a (B, B) situation.

While all parties recognize that (A, A) is superior choice to (B, B), the incentives facing governing coalitions make (B, B) the only stable outcome. It is my contention that many declining or depressed American cities are essentially stuck in (B, B). The question facing citizens is how to move from (B, B) to (A, A) or

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<sup>4</sup> The classic text on Tammany Hall is William Riordan, *Plunkitt of Tammany Hall: A Series of Plain Talks on Very Practical Politics* (New York: E.P. Dutton, 1963). See also Alfred Connable and Edward Silberfarb, *Tigers of Tammany: Nine Men Who Ran New York* (New York: Holt, Rinehart and Winston, 1967).

in the parlance of Buchanan and Congleton, how to “eliminate the off-diagonals.”<sup>5</sup> This is where the need for “rules” comes in.

## CREATING A RULES-BASED GOVERNANCE THAT ALLOWS FOR GREATER EFFICIENCY AND LESS RENT-SEEKING

Rules can take a variety of forms, not all of which are embedded in written laws or constitutions. Attitudes, for example, can reflect the rules of social norms. While certainly changes in federal and state laws pushed the governance of southern cities to be more inclusive, attitudes also changed, which have also helped local governments move from (B, B) to something more closely resembling (A, A). Several northeastern cities, in particular New York, have moved away from coalitional redistribution and toward a more technocratic city manager model of governance. Examples such as New York’s Rudy Giuliani or Philadelphia’s Ed Rendell illustrate the trend. While such cities continue to engage in some degree of insider-outsider redistribution, greater emphasis toward providing broadly available and quality public goods has helped such cities move to a superior position.

Attitudes can and do change. The question becomes how to institute durable mechanisms that focus government toward the common good while reducing its use for coalitional advantage. In a general sense, one solution is to move toward reducing the scope of discretion on the part of local government. Consider real estate construction permits. Although most urban land is zoned for one use or another, such use is rarely by right. That is, even if land is zoned “multifamily,” a proposed apartment complex still must run a maze of regulatory approvals, most of which are characterized by considerable discretion. Such discretion, besides adding considerable cost to developments, also opens up government to the coalitional redistribution discussed above. Approvals may only come after political donations or payoffs to various constituencies of the governing coalition. To increase the

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5 James Buchanan and Roger Congleton, *Politics by Principle, Not Interest: Toward Nondiscriminatory Democracy* (Cambridge, UK: Cambridge University Press, 1998).

value of such regulatory discretion, governments would rationally choose to limit the supply of such approvals as well. In addition to leading to greater levels of corruption, such a structure also reduces the supply of goods and services available to residents of the community. Similar schemes are evident in other locally licensed businesses, from taxicabs to hair salons.

Reducing discriminatory treatment of businesses and potential businesses would be a significant first step in moving local government away from the Tammany Hall outcome. Governments should also embrace a variety of mechanisms that would reduce coalitional redistribution in the domain of individual citizens. In regard to taxation, and regardless of the base rate, local governments can institute single flat taxes with few, if any, exemptions or deductions. The same would hold for property taxes. For instance, property taxes on rentals tend to be higher than for single-family homes in many cities, with little evidence that renters consume a greater share of public goods. The likely rationale lies in homeowners' greater propensity to vote and the varying transparency in taxation between rental and owner-occupied units.<sup>6</sup> Similar uniformity would hold across property types, whether residential, industrial, or commercial.

No discrimination is likely easier to achieve on both the taxation and regulatory sides of government than on the benefits side only. Issuance of permits and differences in tax rates are generally observable and verifiable, whereas differences in the provision of public goods may be more subjective. Nevertheless, provisions should be implemented that minimize varied public good provision among residents. This would minimize the ability to use public goods as hidden transfers to members of the governing coalition. Local public goods should be available to all members of the community, even if such goods are provided neighborhood by neighborhood. Separate will never be equal. Public goods should also be limited to those goods that actually are public in

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<sup>6</sup> See William Fischel, *The Homevoter Hypothesis: How Home Values Influence Local Government Taxation, School Finance, and Land-Use Policies* (Cambridge, MA: Harvard University Press 2005).

nature. As a general rule, keeping government out of the provision of purely private goods would greatly reduce the potential for coalitional redistribution.

While few American cities truly embrace market delivery for public services and while every city likely suffers from some amount of public corruption, some of the biggest innovators have been cities that were once the poster-children for corruption. One of the biggest surprises has been Chicago under Mayor Rahm Emanuel.<sup>7</sup> One of Mayor Emanuel's steps in the direction of market-based delivery has been changing the city's Blue Cart recycling program into one of "managed competition." Under this system, the city is divided into six service areas. Private companies manage four of those areas while public employees manage the other two. By injecting some degree of competition into the provision of public services, Chicago can reduce costs while also minimizing the temptation to use public services as a hidden transfer to specific interests, such as city employees. While monitoring these contracts will be critical, the differing contract pricing of numerous providers offers an important benchmark of cost. These efforts build on earlier steps by Mayor Emanuel's immediate predecessor, such as the privatization of Chicago's parking meters.

Reducing discriminatory and discretionary provision of local public goods also helps to increase both a community's wealth and level of innovation. Instead of resources, including human capital, being used simply for the capture of existing wealth, those resources can be used to create new wealth. Not having to run the maze at City Hall in order to get a building permit or business license is time that can instead be spent on running a business. Money not spent on lawyers and lobbyists is money that is invested back into the community, and done in a way that increases the productivity of workers in the community, ultimately increasing wealth. Reducing political discretion also

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7 Harris Kenny and Adam Summers, "Privatization and Public-Private Partnership Trends in Local Government." Annual Privatization Report 2011 (Washington, DC: Reason Foundation, 2012).

allows workers and entrepreneurs to devote their efforts to activities where they have a comparative advantage. It is a sad reflection of the residential construction industry that so many developers are lawyers by training, the result of the highly politicized atmosphere surrounding real estate.

Minimizing opportunities for corruption at the local level can also increase the level of investment and ultimately wealth in the community. Researchers have found, unsurprisingly, that greater corruption reduces investment, partly by acting as a tax on investment but also by increasing uncertainty.<sup>8</sup> One of the most important areas of local government regulation is the entry of new business, particularly via the issuance of new business licensing. The more difficult it is for new businesses to start, the lower will be both wealth and employment in a community. When looking at data across countries, researchers from Harvard, Yale, and the World Bank found that countries with greater regulation of new business entry have higher corruption but do not have better quality of public or private goods.<sup>9</sup> Countries with more democratic and limited governments have less regulation of entry and accordingly higher quality public and private goods. The same is expected to hold across American cities. Places that make it easier to start a business, particularly by removing the political discretion surrounding the granting of new business licenses, are likely to see greater growth, more opportunity, and less corruption. Areas such as taxicab licenses, restaurants, and beauty salons can offer tremendous opportunities for entrepreneurship by low- and moderate-income individuals if those industries had lower barriers to entry.

## WHY CAN'T POLITICS SOLVE DISCRIMINATORY GOVERNMENT?

The general approach to limiting coalitional redistribution, at least in the community development context, has been to institute

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8 See Paolo Mauro, "Corruption and Growth," *Quarterly Journal of Economics* 110 (3) (1995): 681–712.

9 Simeon Djankov et al., "The Regulation of Entry," *Quarterly Journal of Economics* 117 (1) (2002): 1–37.



mechanisms that include a greater share of the community in political decision making. Initial efforts also focused on reducing the influence of “politics” and instead having “experts” drive urban policy. Whatever the direction taken, urban reformers have long recognized that coalitional redistribution, or “machine politics,” came at a considerable cost to the community.<sup>10</sup>

Federal housing and community development statutes are littered with various requirements for community input into how state and local governments will use federal dollars. For instance, Section 104 of the Housing and Community Development Act of 1974, which governs the community development block grant (CDBG) program, requires grantees to prepare “a final statement of community development objectives and projected use of funds” and to make that statement available to the public. In addition, grantees are required to hold public hearings and take public comment on the statement. Grantees, in some instances, must also develop a “detailed citizen participant plan,” which may provide technical assistance to “groups representative of persons of low and moderate income” so that said groups are able to participate. Clearly, there are multiple opportunities for “citizen participation” in federal housing and community development programs.

Despite these multiple opportunities to offer input, there is little evidence of widespread participation. Of course, participation increases when there is a reasonable probability that government will be responsive. Otherwise, the citizen investment required is likely to be prohibitive.<sup>11</sup>

Regardless of the desired impact of the regulatory language and requirements for greater participation and accountability,

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10 Early examples include Lincoln Steffens, *The Shame of the Cities* (Dover, UK: Dover Publications, 1904) and Harold Zink, *City Bosses in the United States: A Study of Twenty Municipal Bosses* (Durham, NC: Duke University Press, 1930). For more recent work in context of replacing politics with experts, see Kenneth Finegold, *Experts and Politicians: Reform Challenges to Machine Politics in New York, Cleveland, and Chicago* (Princeton, NJ: Princeton University Press, 1995).

11 Samuel Paul, “Accountability in Public Services: Exit, Voice and Control,” *World Development* 20 (7) (1992): 1047–1060.

it is likely that those with the largest financial interests in the proposed projects will dominate community participation. A review of community participation efforts in economic development conducted by the World Bank found that:

*Projects that rely on community participation have not been particularly effective at targeting the poor. There is some evidence that such projects create effective community infrastructure, but not a single study establishes a causal relationship between any outcome and participatory elements of a community-based development project. Most such projects are dominated by elites, and both targeting and project quality tend to be markedly worse in more unequal communities.<sup>12</sup>*

Early research on the impact of the CDBG program has also found that the “elite” drove community participation in the planning process.<sup>13</sup> In fact, there is some evidence that urban governments in the United States have reduced the quality of public services in order to encourage specific segments of the population to move out of the city, with the intent of solidifying political control.<sup>14</sup> Even when local elites feel they have the best interests of the local community in mind, those trade-offs might not reflect the desires of those most in need. For instance, Matthew Kahn has found that California cities that are more liberal approve fewer housing permits, all else equal, including income.<sup>15</sup> While elites may place more value on an additional dog park or open spaces in which to play Frisbee golf, it is far from obvious that these uses of space are more valuable than, say, the provision of additional market-rate housing.

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12 Ghazala Mansuri and Vijayendra Rao, “Community-Based and -Driven Development: A Critical Review,” *World Bank Research Observer* 19 (1) (Spring 2004): 1–39.

13 Donald E. Voth, “An Evaluation of Community Development Programs in Illinois,” *Social Forces* 53 (4) (1975): 635–647.

14 Edward Glaeser and Andrei Schleifer, “The Curley Effect: The Economics of Shaping the Electorate,” *Journal of Law, Economics, and Organizations* 21 (2005): 1–19.

15 Matthew Kahn, “Do Liberal Cities Limit New Housing Development? Evidence from California,” *Journal of Urban Economics* 69 (2) (March 2011): 223–228.

## INFORMATION, THE MARKET, AND PUBLIC POLICY

While determining who benefits is certainly critical with any public policy, and federal development programs have had, at best, mixed results, a more important question with respect to the long-run health of a community is how is knowledge incorporated into policy.

From the 1930s until the 1970s, community development was largely top-down and expert-driven. Perhaps the best-known and worst-case example is Robert Moses' remaking of New York City and the surrounding environs. Robert Caro's masterful narrative of Moses in *The Power Broker* leaves one both impressed at the feats accomplished and horrified at the lack of accountability and transparency, not to mention the destruction of vibrant neighborhoods in the name of urban renewal. Such was the horror that Jane Jacobs was motivated both to protect her own neighborhood from Moses's path and to start writing what eventually became *The Death and Life of Great American Cities*.

Popular writers and community activists were not the only ones to spot the failure of this top-down model of community development. Academics began to argue for "collaborative planning"<sup>16</sup> and "communicative action"<sup>17</sup> to correct the imbalance between the experts and the communities affected. The emphasis of these theorists was the use of citizen participation as a method to convey information to professional planners. Their proposed method was public discourse and debate, hence the increased calls for public hearings, along with the requirement that comprehensive plans be subject to notice and comment.

The limit of increased citizen participation is, however, that some knowledge cannot be communicated via testimony, comment, and debate.<sup>18</sup> As Nobel laureate F.A. Hayek observed, it is

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16 See generally Patsy Healy, *Collaborative Planning* (London: Macmillian, 1997).

17 Jurgen Habermas, *The Theory of Communicative Action* (Boston: Beacon Press, 1984).

18 See generally Mark Pennington, "Citizen Participation, the 'Knowledge Problem' and Urban Land Use Planning: An Austrian Perspective on Institutional Choice," *Review of Austrian Economics* 17 (2/3) (2004): 213–231.

only the price system, embedded in a general system of private property, that is able to convey the subjective value judgments of numerous individuals into a simple and easy-to-understand measure.<sup>19</sup> Without the guidance of market prices based on relative scarcity, a community that must allocate its available resources to competing demands has little guidance, other than politics, on what it should prioritize. Determining which public goods should be produced—for example, a park versus a pool—is an arbitrary decision without knowing what the community values more. Given the evidence that the citizen participation process is often captured by elites, or the governing coalition, we clearly need market-based mechanisms instead. These would allow all community members to make their subjective value judgments count as well as reduce the ability to discriminate in providing public goods.

Even if citizen participation could functionally convey all relevant information, such a process depends on all necessary knowledge actually being known ahead of the decision. As Hayek<sup>20</sup> and fellow Nobel laureate James Buchanan<sup>21</sup> have emphasized, the market process is not simply one of allocation, but also of discovery. Economic development is not an engineering problem, where one just adds more investment to X or allocates more capital to Y. The appropriate variables and their optimal quantities and combinations are simply not knowable ahead of time and must be discovered via trial and error, a process not particularly amenable to any sort of government intervention.

While it is difficult (if not impossible) to know the optimal amount of community development funding that should be spent annually on new activities, such an amount could serve as a useful proxy for the ability of local governments to respond

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19 F.A. Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35 (4) (1945): 519–530.

20 F.A. Hayek, “Competition as a Discovery Procedure.” In *New Studies in Politics, Economics and the History of Ideas*, edited by F.A. Hayek (London: Routledge, 1978).

21 James Buchanan and G. Vanberg, “The Market as a Creative Process,” *Economics and Philosophy* 7 (1991): 167–186.

to changing community circumstances. It is unlikely that a community faces the exact same set of needs from one year to the next, and this is even more unlikely over the course of several years. Even if this were the case, it is more unlikely still that a community would place the exact same relative priorities on these needs over time. Despite all these facts, what little evidence we have suggests a high degree of rigidity in spending over time. Typically, how a city spends its community development funds bears a strong resemblance to how it spent funds in the previous year, all the way down to the same projects. A group of researchers in Michigan examined the CDBG expenditures for a handful of Michigan communities over a five-year period and found it was quite rare for those subsidies to be used for new projects.<sup>22</sup> Cities like Pontiac were representative, which spent 9 percent of its CDBG funding on new activities over five years. Some cities, such as Saginaw, spent even smaller shares, at 5 percent. Although these data are not conclusive, they do suggest that, even with extensive community participation requirements, local government community spending doesn't adjust well to changing community needs or preferences.

It could be tempting to respond to such concerns with “so what?” Even if policies do not reflect the preferences of the overall community, assist members most in need, or accurately reflect the community's relative needs, at least some good is being done, right? Community development and urban renewal programs of the 1950s and 1960s most likely did more harm than good, eliminating far more affordable housing than they created and destroying vibrant working-class neighborhoods. One could argue we have since learned our lesson: we include the communities in question, hold public hearings and, in general, no longer demolish large tracts of housing. Without a doubt, current community development programs are a major improvement over their predecessors.

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<sup>22</sup> Raymond Rosenfeld et al., “Community Development Block Grant Spending Revisited: Patterns of Benefit and Program Institutionalization,” *Publius* 25 (4) (1995): 55–72.

That said, moving from truly harmful to perhaps less harmful public policy is hardly inspiring. Despite our having spent hundreds of billions (in excess of \$120 billion for CDBG alone)—and as Eileen Norcross reminds us, “CDBG [having] awarded funds to the most depressed cities for over thirty years”—many of these same cities remain depressed. Norcross raises the possibility that “the steady and expected infusion of federal dollars may act as a ‘signal buffer’ in city governments, encouraging less efficient management of public dollars, or forestalling more significant policy reforms that might stimulate economic development.”<sup>23</sup> This, I believe, is the real harm from federal community development programs: they insulate local governments from local accountability and hence reduce the pace of community learning and adaptation.

Some scholars have argued that earlier urban renewal and developments plans failed because they were actually too inclusive. Jon Teaford, for instance, claims that “the inclusiveness of urban renewal proved a weakness.”<sup>24</sup> Teaford argues that, because the program goals were “ambiguous and ill-defined,” each interest could see the goals in its own desired light. Residents could demand more affordable housing, commercial developers and business leaders could envision new hotels and conference centers, while mayors and city council members could savor the prospect of new property tax revenues. While Teaford sees this broad inclusiveness as a fatal flaw, believing that a strong, centralized figure (such as Robert Moses) is needed, the true flaw is that a participatory process based on debate has no way of reconciling and comparing these competing demands. Even Teaford’s claimed successes were less than effective: Detroit’s Lafayette Park did not turn around Detroit’s population loss, as he himself recognizes.

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23 Eileen Norcross, *The Community Development Block Grant: Does It Work?* (Fairfax, VA: Mercatus Center, George Mason University, November 2007), available at <http://mercatus.org/publication/community-development-block-grant-does-it-work>.

24 Jon Teaford, “Urban Renewal and Its Aftermath,” *Housing Policy Debate* 11 (2) (2000): 443–466.

Although the available evidence can be characterized as mixed, there is sufficient support for concluding that federal participatory requirements may have changed the composition of the governing coalition but have done little to change the nature of the game. In fact, the shift away from coalitional redistribution and toward an emphasis on the general welfare has occurred in an environment of both reduced federal support for cities and a reduced share of city expenditures on redistribution. In addition, the use of community participation, regardless of the composition of the governing coalition, still suffers from knowledge problems that plague any system of nonmarket allocation.

## BEHIND THE GAME THEORY MATRIX

Although models by their nature are a simplification of reality, they do need to bear some resemblance to provide useful analysis. Is it realistic to believe that losses from rent-seeking can be so large as to push cities into decline? The late Mancur Olson provided substantial theoretical and empirical evidence that rent-seeking drives national decline.<sup>25</sup> Several researchers have found fairly large negative effects on economic growth from rent-seeking activities. Estimates have been as high as 45 percent of economic output, certainly large enough to push communities into decline.<sup>26</sup> Similar results have been found across U.S. states. For instance both the raw number of interest groups in a state and the number compared to the size of a state's economy have large negative effects on state economic growth.<sup>27</sup>

Empirical results, however strong they may be, can fail to convince in the absence of a theory. The theory here is that community members invest resources into capturing existing

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25 Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CT: Yale University Press, 1982).

26 David N. Laband and John P. Sophocleus, "The Social Cost of Rent-Seeking: First Estimates," *Public Choice* 58 (3) (1988): 269–275; see also William Dougan, "The Cost of Rent Seeking: Is GNP Negative?" *Journal of Political Economy* 99 (3) (1991): 660–664; Kevin Murphy, Andrei Shleifer, and Robert W. Vishny, "Why Is Rent-Seeking So Costly to Growth?" *American Economic Review* 83 (2) (1993): 409–414.

27 Ismail Cole and M. Arshad Chawdhry, "Rent Seeking and Economic Growth: Evidence from a Panel of U.S. States," *Cato Journal* 22 (2) (2002).

resources from others, rather than investing in productive activities that would spur economic growth. In addition to rent-seeking representing a loss of community resources, it can also drive community members on the losing end to exit the community, further reducing the productive capacity of the community. Rent-seeking can also divert government resources away from physical capital investment and public services that could potentially boost long-term growth, and toward short-term consumption on the part of governing coalitions. Rent-seeking can also reduce growth by skewing the career choices of talented and creative individuals.<sup>28</sup> Much has been made recently about the graduates seeking jobs on Wall Street rather than pursuing other activities that might contribute more to economic growth and community development. Similar patterns can be expected at the local level.

## CONCLUSION

This essay has argued that many cities are essentially stuck in a bad political trap, where coalitional politics have reduced the overall pie. Moving toward a situation in which local governance fosters the general welfare will not be easy, but implementing rules that minimize, if not eliminate, discrimination across citizens, on both the tax and benefit sides of government, could help shift communities to a position that increases the total welfare of community members.

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<sup>28</sup> Kevin Murphy, Andrei Shleifer, and Robert W. Vishny, "The Allocation of Talent: Implications for Growth," *Quarterly Journal of Economics* 106 (2) (1991): 503–530.