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Commentary

Title:

"The Parable of the Towns"

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The widely held belief that market competition allows for the highest quality and most preferred outcome to flourish, and thereby brings about optimal social arrangements, is a powerful view that has benefited modern society enormously. Nevertheless, a focus on the subtleties and nuances of market failure is essential to advance society even further in the modern world. The following parable identifies the public good "community" as the source of an important market failure in urban and suburbanized regions. This market failure has resulted in the creation of modern metropolitan areas that are far less community-centered than they otherwise would be in an optimally organized society.

The Parable…

Once upon a time, a long time ago, there was a region in which the people had organized themselves into many small communities that they called towns.[1] There were different kinds of people and so there were different kinds of towns, but one thing they all had in common is that each town had a town center. The town centers were filled with shops owned by townspeople. They also had sidewalks, benches, and gathering spaces, which the townspeople had designed with pride and perseverance over the years. The people were proud of their town centers where they loved to spend time strolling the sidewalks and visiting each other. They also enjoyed visiting other town centers, which they quietly compared to their own. When they encountered something new and appealing, they would mention it in their own town meetings, and so the quality of life improved consistently and almost organically across the towns.[2]

The town centers were not only places of leisure but were also quite necessary for the commercial and social fabric of daily life. The shops supplied the goods and services that the townspeople wanted. There were bakeries and butcher shops, produce and dairy stores, barber and beauty shops, flower shops, toy shops, shoe shops, hardware stores, and bicycle shops. There were also sandwich shops, coffee shops, and candy stores; places to sit, rest and visit. The towns people loved their town centers, but it was not the things they could buy that made a town center so appealing, it was something they enjoyed even when they did not shop. A town leader once called it "community" and the word stayed with them. Community was something that they were all very happy to have, but they did not really give it much thought. In hindsight, one might say they took it for granted.[3]

Eventually, as has happened throughout history, the winds of change arrived, and new ideas began to enter the imaginations of the townspeople and their leaders. Many times, as so often happens, those ideas were initiated and promoted by articulate advocates who stood to gain from their implementation. It should be noted, however, that many townspeople were also "true believers" who pursued the new ideas because they believed doing so would be good for their

[1] Tiebout ("A pure theory of local expenditures" (1956), *Journal of Political Economy*, 64(5), 416-424) conjectured that, in a system of local communities, families would sort themselves according to tastes for government services. Thus, mobility among communities created a natural mechanism for the optimal provision of local public goods and services.

[2] Brandeis (New State Ice Co. v. Liebmann (1932), US Supreme Court, 285), Oates (*Fiscal Federalism* (1972), New York: Harcourt Brace Jovanovich) and many others have noted the "laboratory" nature of local government policy experiments in a federal system of governments.

[3] The environmental psychology literature has led the way in documenting the importance of a sense of place or "community" in the wellbeing of residents. See for example Francis, et. al. ("Creating sense of community: The role of public space" (2012), *Journal of Environmental Psychology*, 32(4), 401-409).

communities. One fundamental point that was regularly made was that townspeople in most of the towns were by no means rich, and if prices could be lowered, that would be a good thing.

It turns out that new innovations in production, distribution and transportation were emerging throughout the world, and the articulate advocates were seeing that they could bring goods to the people at lower prices, while at the same time making nice profits for themselves. The articulate advocates found faraway places to produce things at lower costs, and at the same time, developed highly efficient distribution networks that would enable them to deliver goods with equally low transportation costs. But the key to their success would be the final link in their distribution networks: large retail establishments, with names like Big-Mart and Home Warehouse, where almost anything the townspeople could ever need or want would fit under one roof. "The people will love it!" argued the articulate advocates of the new way of doing things. The people will flock to these stores not only for the lower prices, but also for the ease of shopping and finding everything they could want in one place.[4] And they were right.[5]

Soon large Big-Marts and Home Warehouse stores began appearing on the outskirts of the towns, each big enough to service the needs of ten or more towns. Their popularity was instant and enormous. More people flocked to these stores than even the articulate advocates had imagined. As their success became obvious more and even bigger stores were built that could service an even larger number of towns. To emphasize their bigness some began branding themselves as Super Big-Mart and Giant Home Warehouse.

When the people were surveyed to ask what they liked about the big stores, they responded just like the articulate advocates said they would. "We love the low prices and the ease and convenience of shopping," they said. When asked if the bread and pastries they were buying were as good as the bakeries in the town centers, they said, "No, but we tend to buy our bread in the Big-Mart because we are already here." When asked about the quality of the shoes, they said, "There is more 'buyer beware' because the store's reputation is about low prices not quality," in contrast to the shoe shop downtown that was owned by a neighbor. The same was said about most other goods and services, but the ease of shopping and lower prices seemed to outweigh other considerations. Competition, it was argued, proved what people wanted, and that was low prices.

One thing that the people loved in the beginning was that they could get all their shopping out of the way in the morning, then spend the rest of the day joyfully meandering through their town centers, strolling down the sidewalks, pushing baby-strollers, or simply catching up with friends and neighbors who were also walking about or relaxing on town benches or in the coffee shops. They were enjoying that thing called Community.

Little by little, however, they noticed that a bakery was closing, a shoe shop was closing, or a hardware store was closing.[6] As fewer people shopped in the town centers, and more stores closed, the effect tended to feed-back on itself. Fewer shops meant less people, which caused more shops to go out of business, which meant even fewer people. As stores closed, windows were

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[4] Salkin ("Supersizing Small Town America: Using Regionalism to Right-Size Big Box Retail" (2005), *Vermont Journal of Environmental Law*, 6(1), 48–66) notes the legal efforts of developers of large retail establishments.

[5] Cohen ("From Town Center to Shopping Center: The Reconfiguration of Community Marketplaces in Postwar America" (1996), *The American Historical Review*, 101(4), 1050-1081) provides a nice historical account of the grand thinking of the developers of suburban America.

[6] See Blanchard, et. al. ("Suburban Sprawl, Regional Diffusion, and the Fate of Small Retailers in a Large Retail Environment, 1977-1996" (2003), *Sociological Focus*, 36(4), 313–331) for evidence of small-town retail demise after the establishment of big-box retailing.

boarded up, renovations stopped, and town centers began to decay. The townspeople were saddened but said little. Some who did speak up called it progress.

One place that was booming, however, was the outskirts of the towns where the Super Big-Marts and the Giant Home Warehouse stores were providing goods and services for all the people from so many different towns. Since there were no more town centers to speak of, someone suggested that a lot of duplication could be avoided if towns were eliminated altogether and instead a large county government could be formed.[7] This was readily agreed to, and the first thing that the officials of the county government noticed was that with so many people going to the Super Big-Marts and the Giant Home Warehouses, the roads certainly needed to be widened. They organized the construction of four and six-lane roads throughout the county (which, if you recall, used to be a collection of towns). Of course, the purpose of the widening was to ease the traffic congestion getting to the Super Big-Marts and the Giant Home Warehouse stores. And since reduced shopping time was important, the speed limits on these new widened roads were set at 55 mph, but more typically cars moved at 60 to 70. Those speeds made driving rather unpleasant and stressful, and there were, of course, more deadly accidents than before. But county officials promised to pay for "traffic calming" studies to try to address the problem.[8]

With the town centers gone, the people had few places to visit with each other, but fortunately, along the newly widened roads with all the traffic, it became quite profitable to open restaurants. Soon the wide traffic-filled roads around the Super Big-Marts and Giant Home Warehouse stores were bustling with all sorts of restaurants. These restaurants were not like the sandwich shops and coffee shops that used to exist in the town centers. They had also learned the lesson of bigness and low-cost distribution (i.e., "Economies of Scale"). They were called "franchises." They made their food in far-away factories and shipped it overnight to their many locations, which allowed them to profitably feed large portions to large crowds of people who lined up before or after going to their trips to the Super Big-Marts and Giant Home Warehouse stores.

The new, wide county roads ("parkways," they called them) became the new centers of social and economic activity, except they were not centers anymore but were instead long, linear corridors on which thousands of people drove up and down to go back and forth from their homes in what used to be their towns. A great convenience of these franchise restaurants was that they all had ample parking lots. The people could drive almost right up to the door and walk a few steps to their table and be served enormous plates of food that had been shipped in the night before from far away warehouses. This, of course, created an obesity problem in the county that many recognized, but few talked about (and the cause of which even fewer understood). Some of the older people recalled strolling through their old town centers, perhaps having a bite to eat but mostly walking and talking with neighbors more than eating, but they tended to remain quiet.[9]

One apparent positive side-effect of all the changes that had taken place is that the county's GDP had gone up, which, according to some analysts, meant that the quality of life was likely much higher now than it had been when there was a collection of small towns. It turns out that

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[7] Salkin (citation in previous footnote), discusses regional approaches to addressing the big-box issue.

[8] Ewing, et al. ("Urban Sprawl as a Risk Factor in Motor Vehicle Crashes" (2016), *Urban Studies*, 53(2), 247–266) provide evidence of urban sprawl as a risk factor in motor vehicle crashes.

[9] Speck (*Walkable City: How Downtown Can Save America, One Step at a Time* (2013), Macmillan) is a wonderful discussion of the benefits of a walkable downtown. See also Southworth ("Designing the Walkable City" (2005), *Journal of Urban Planning and Development*, 31(4), 246-257).

GDP is measured by the dollar spending on economic activity. When people went for walks in their town centers, those walks sometimes occupied their entire evening. There could be at times as many as six or seven adults visiting and chatting together on the town benches. During that entire period, though people may have been enjoying themselves, no GDP was created. The same thing used to happen on weekends when teenagers went to the town center to meet their friends. Perhaps one or two would buy an ice cream, which would contribute toward GDP, but all the "hanging out" with friends did not count.

The Super Big-Marts and Giant Home Warehouse stores, on the other hand, were engines of measurable economic activity. The sole purpose of going there was to buy something. The franchise restaurants moved people in and out with clockwork efficiency. They enticed hungry customers with enormous portions that made up for a lack of quality, and the resulting obesity epidemic even helped finance a growing healthcare market. Even those few who individually tried to protect themselves from the obesity epidemic did so by joining large gyms, usually a short drive along the widened parkways from the franchise restaurants, the Super Big-Marts, and the Giant Home Warehouse stores. The gym memberships too were dollar-transactions that created GDP. By all accounts the county was booming! It was an engine of GDP!

The numbers did not lie, did they? The people must have been happy with such a high GDP or, should we say, such a high quality of life? Another set of numbers, however, suggested a less sanguine picture. Mental illness and depression were on the rise, as was suicide. A wise man wrote that people seemed to prefer bowling alone.[10] The data showed, in any case, that people participated less in teams, clubs, and other social organizations than they had in the past. Government leaders and social scientists held meetings to consider what resources could be devoted to mental health services. The Super Big-Marts sold many self-help books. The older folks noted that times had certainly changed. "Why are people so desperate to belong to online communities," they asked. No one mentioned that it was because there were no other communities left.[11]

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[10] See Putnam, (*Bowling Alone: The Collapse and Revival of American Community* (2000), Simon and Schuster).
[11] Ridings, et. al. ("Virtual Community Attraction: Why People Hang Out Online" (2004), *Journal of Computer-Mediated Communication*, 10(1), JCMC10110. 2004) note that, social support and friendship are typically the second most popular reason for joining many online communities, just after "information exchange."