

**PHD THESIS SUMMARY:  
The political economy of urban reconstruction,  
development, and planning.**

EMILY C. SCHAEFFER\*

*PhD in economics, April 2009*

*George Mason University*

Public economic planning is a pervasive part of the social space of political economy. In times of crisis, public officials in American government agencies at the local and national level increasingly use the vocabulary of economic planning. My PhD dissertation is a collection of papers representing a pointed critique of urban economic planning by public officials in times of crisis and prosperity. I explore John Stuart Mill's argument in his *Principles of political economy* (1848) concerning the market mechanism (compared to rational central planning) through which economies experience remarkable recovery in the wake of devastation:

This perpetual consumption and reproduction of capital affords the explanation of what has so often excited wonder, the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war (Mill 1848, 74-75).

The papers are rooted in the classical liberal philosophies of David Hume and Adam Smith, and stem from the scholarship on planning of the economists Friedrich A. Hayek (1935; 1937; 1945; 1952) and Ludwig von Mises (1920; 1922; 1949). Particularly following a crisis, demands for planning tend to be especially strong and persist in the name of economic and social development. At the core of the planning paradigm is the idea that public planning can produce results superior to the spontaneous outcomes of markets. My dissertation explores this idea by using a theory of politics as exchange and draws on the fields of

---

\* **AUTHOR'S NOTE:** I would like to thank the editors of EJPE for helpful suggestions on this summary and the Mercatus Center for generous research support for this work.

philosophy and sociology to sharpen the understanding of economic planning.

Traditional economic approaches to planning and development use comparative statics, in which the modeler stands outside the system and policies are enacted “on top” of a market structure. In other words, political planning is predicated on the idea that rational construction of outcomes can be substituted for market exchange. The alternative framework herein explains how the knowledge coordinating properties of the price system produces emergent outcomes superior to those constructed by public planners. Neither one single mind, nor group of minds possesses the cognitive ability to design and coordinate a system of such complexity. In fact, attempts to implement public planning set in motion an endogenous and non-constructivist order as well, producing patterns of exchange based on distorted relative prices that do not accurately reflect underlying scarcities.

My framework posits that the same components of human agency are present in markets and politics. Adam Smith’s argument for the propensity of humans to “truck, barter, and exchange” does not wane when individuals move from institutional contexts of private to public life (or contexts of strong private property rights to weak or absent private property rights). However, the manifestations of these propensities do change. Unless under situations of unanimous voting, political exchange involves traders that do not bear the full cost of the public action. Individuals in the marketplace are constrained to actions that satisfy both the immediate wants of his exchange partner (leaving both parties better off) and increasing total wealth.

Satisfaction of this condition in private exchange serves as the foundation for the superior epistemic properties of market generated coordination. As prices emerge through the exchange of private property, local knowledge is communicated to relevant actors. For example: when a hurricane destroys a town, the price of lumber rises dramatically. People thousands of miles away may not know why the price of lumber is higher, but they are “told” by the price to conserve their use of lumber because it is valued relatively more in the disaster-hit area. Similarly, someone outside of the disaster area may see that the price of lumber is triple its normal price. Lured by exchange for profit, the individual will buy near and sell dear. The price system transmits the knowledge of relative prices to agents throughout the system, thus communicating the incentives to bring about a more coordinated state

of affairs. Profit and loss accounting provides the necessary discipline to ensure that the information traveling through the system reflects the underlying relative scarcities, and is therefore accurate knowledge. I argue that public exchange lacks such epistemic virtues and thus results in an inferior kind of coordination when compared to a market generated order.

The first paper of my dissertation is entitled, “Earth, wind, and fire! Federalism and incentives in natural disaster response”. Following catastrophic natural disasters, the benefits of centralization include the ability to amass resources quickly and a unique ability to overcome externality problems. Through a comparative analysis of three large-scale natural disasters, I find that citizens’ groups led a more efficient response than that led by a federal agency specializing in disaster recovery. Lacking effective mechanisms for communicating the relevant knowledge and the weak incentives of federal officials, the advantages of centralization failed to provide an adequate recovery due to an inability to harness the local knowledge of time and place.

The second paper of the dissertation, “The role of public and private bureaucracy in urban natural disaster response” considers how a city rebounds from natural disasters when there is no federal agency involvement. I explain how a private bureaucracy functioned following the Chicago Fires of 1871. My findings suggest that the operation of an effectively monopolistic group of private citizens provided a relatively superior recovery services when compared to public bureaucracy.

Finally, the third paper, “Mixed-income development housing: what’s left in neighborhood economic planning?” addresses localized mixed-income housing policies that attempt to correct the effects of concentrated poverty with government planning that involves human capital investment. Political planning attempts to subvert the workings of this decentralized price mechanism with a hierarchical structure of decision-making. Lacking the epistemic properties of market orders, political planning devolves into political exchange between interest groups. Using ethnographic case study analysis of the St. Thomas/River Garden Development, I examine the planning process from a political exchange perspective and explain how the outcomes of policy deviate from the intended or “planned” outcomes.

In sum, *The political economy of urban reconstruction, development, and planning* is an attempt to transplant a popular framework of

political and market exchange to the local planning level, where urban resilience and decay can be effectively explained.

## REFERENCES

- Hayek, Friedrich A. 1935. Socialist calculation I: the nature and history of the problem. In *Individualism and economic order*, F. A. Hayek, 1996. Chicago: University of Chicago Press, 119-147.
- Hayek, Friedrich A. 1937. Economics and knowledge. In *Individualism and economic order*, F. A. Hayek, 1996. Chicago: University of Chicago Press, 33-56.
- Hayek, Friedrich A. 1945. The use of knowledge in society. In *Individualism and economic order*, F. A. Hayek, 1996. Chicago: University of Chicago Press, 77-91.
- Hayek, Friedrich A. 1952. *The counter-revolution of science: studies on the abuse of reason*. Glenco (IL): The Free Press.
- Hume, David. 1987 [1889]. *Essays: moral, political, and literary*. Indianapolis (IN): Liberty Fund.
- Mill, John Stuart. 2006 [1848]. *Principles of political economy*. Indianapolis (IN): Liberty Fund.
- Mises, Ludwig von. 1920. Economic calculation in the socialist commonwealth. In *Collectivist economic planning: critical studies on the possibilities of socialism*, ed. F. A. Hayek, 1935. London: Routledge, 87-130.
- Mises, Ludwig von. 1949. *Human action: a treatise on economics*. New Haven (CT): Yale University Press.
- Mises, Ludwig von. 1981 [1922]. *Socialism: an economic and sociological analysis*. Indianapolis (IN): Liberty Fund.
- Smith, Adam. 1981 [1776]. *An inquiry into the nature and causes of the wealth of nations*. Indianapolis (IN): Liberty Fund.
- Smith, Adam. 1981 [1759]. *The theory of moral sentiments*. Indianapolis (IN): Liberty Fund.

**Emily C. Schaeffer** obtained her PhD in economics from George Mason University in April 2009. The dissertation committee included Professor Peter J. Boettke (George Mason University) as the committee chair, Peter T. Leeson (George Mason University), and Virgil H. Storr (Mercatus Center, George Mason University).

Contact e-mail: <Eschaeff@gmu.edu>

Website: <www.Emily-Schaeffer.com>