



## Urban Interventionism and Local Knowledge\*

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**Abstract.** Not only do government interventions tend to compromise the knowledge-utilizing properties of the price system, they also impinge directly and in important ways on local knowledge, or Hayek's "knowledge of the particular circumstances of time and place." This local knowledge includes norms and trust levels that promote impersonal market interactions and complement more familiar forms of production-related skills and know-how. Thus, along with the well-known Hayekian lesson that the effective use of local knowledge depends on an extensively used and well-functioning price system, it is equally important to appreciate the reverse: i.e., the role of certain kinds of local knowledge in enabling the extensive use and smooth functioning of the price system to occur. In this way, interventionism can diminish the price system's effectiveness not only by directly distorting relative prices, but also indirectly by undermining local knowledge. As is generally true of interventionism, these consequences tend to reinforce the interventionist propensities of public choosers.

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*One of the most important lessons we can learn from an examination of economic life is that a nation's well-being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in the society.*

Francis Fukuyama (1995:7)

### Introduction

In this paper I argue that not only do government interventions tend to compromise the knowledge-utilizing properties of the price system, they also impinge directly and in important ways on *local knowledge*, or "knowledge of the particular circumstances of time and place" (Hayek 1948:80). This local knowledge includes *norms* and *trust levels* that promote impersonal market interactions and complement more familiar forms of production-related skills and know-how. Thus, along with the well-known Hayekian lesson that the effective use of local knowledge depends on an extensively used and well-functioning price system, it is equally important to appreciate the reverse: i.e., the role of certain kinds of local knowledge in enabling the extensive use and smooth functioning of the price system to occur.

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Also, by drawing upon certain cognate discussions on interventionist dynamics in sociology and urban anthropology, I argue that the social institutions and complex informal networks that characterize a mature market process emerge from densely populated urban environments. Great cities are Hayekian spontaneous orders *par excellence* and ought therefore to be a central concern to the theory of interventionism.<sup>1</sup>

### **Interventionism and Local Knowledge**

According to the theory of interventionism, the use of political power to intervene into the market process generates a dynamic that ultimately causes the actual outcome of that intervention to diverge significantly from the intended outcome. In essence, these perverse outcomes arise from the attempt to deliberately reconstruct spontaneously formed social orders, such as cities, or to consciously redirect spontaneous entrepreneurial-competitive processes. Owing to their incomplete knowledge and ideological predispositions, however, public choosers (i.e., those responsible for making public-policy decisions) fail to recognize that the source of such outcomes is inherent in the nature of interventionism. In the meantime, the interventionist process, following its own inner logic, propels the mixed economy through swings of cumulative interventions to disintervention, and back again.<sup>2</sup>

While a more complete explanation of the interventionist process involves considerable detail,<sup>3</sup> for present purposes it will be sufficient to focus on two points: how interventionism changes local knowledge, and how these changes tend to promote the interventionist process.

#### *How Interventionism Impacts Local Knowledge: Norms and Trust*

Mises's paradigmatic example of the interventionist dynamic focuses on relative-price distortions (Mises 1977:24–29). He supposes, for example, that well-meaning public choosers attempt to intervene to lower the relative-price of some commodity, say milk, below its market price in order to increase its availability to low-income families. When a shortage occurs to frustrate this plan, their response, influenced by their ideological preferences, is to intervene into the input markets that supply milk producers (e.g., cattle feed, electricity, milking equipment) or to subsidize production to try to lower production costs. When this, in turn, creates shortages in input markets or in markets that provide the subsidy, their response is again to intervene further, fixing prices (or subsidizing production) in the input markets of suppliers of the inputs for milk (e.g., agricultural land, electrical generators, steel, labor). As long as public choosers persist in employing additional interventions, piecemeal fashion, to address the problems created by prior interventions, the tension between political power and economic forces, which is at the heart of the interventionist dynamic, steadily grows.<sup>4</sup> The interventionist logic expands the scope of state activity in a process that, in the absence of disruptions, could in theory eventually transform a catallaxy—the market economy—into a form of collectivism.<sup>5</sup>

In Hayek's complementary version of the story, a well-functioning price system serves to coordinate the expectations of agents, scattered anonymously across the catallaxy in a myriad of localities, concerning the relative scarcities of resources (as well as other kinds of local expectations). Thus, expectations in one locality may be relevant to decisions being made in other localities throughout the catallaxy. To the extent that interventions prevent relative prices from accurately reflecting this sort of local contextual knowledge, expectations and the plans based on them will fail to coordinate within the market process and result in unintended consequences.

Explanations of the nature of local knowledge, however, typically emphasize such things as:

To know of and put to use a machine not fully employed, or somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies . . . (Hayek 1948:80).

That is, the emphasis has been on know-how and skills relating to the production of goods and services. But knowledge of time and place can have a broader interpretation, to include "knowledge of the person" as well as knowledge of excess capacity:

In actual life the fact that our inadequate knowledge of the available commodities or services is made up for by our experience with the persons or firms supplying them—that competition is in large measure competition for reputation or good will—is one of the most important facts which enables us to solve our daily problems. The function of competition is here precisely to teach us *who* will serve us well: which grocer or travel agency, which department store or hotel, which doctor or solicitor, we can expect to provide the most satisfactory solution for whatever particular personal problem we may have to face (Hayek 1948:96–97; emphasis original).

Hence, personal relationships inform actors of the qualities of potential trading partners, including their reliability, reputation, and good will. In addition, competition in the market process also informs us about whose services best suit our plans.<sup>6</sup>

Norms and trust levels are aspects of so-called *social capital*, which has been defined as "connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them" (Putnam 2000:19). It is a set of local expectations shared by members of a community, varying according to time and place, that enhance the value productivity of complementary inputs, including technical skill and other forms of knowledge. Although social capital can encompass phenomena that are not directly relevant to us (e.g., political and civic participation),<sup>7</sup> the general features of social capital outlined here do apply to norms and trust.<sup>8</sup>

Hayek wrote explicitly on how interventionism alters the knowledge and norms<sup>9</sup> of individuals in society:

the most important change which extensive government control produces is a psychological change, an alteration in the character of the people. This is necessarily a slow affair, a process which extends not over a few years but perhaps over one or two

generations. The important point is that the political ideals of a people and its attitude toward authority are as much the effect as the cause of the political institutions under which it lives. This means, among other things, that even a strong tradition of political liberty is no safeguard if the danger is precisely that new institutions and policies will gradually undermine and destroy that spirit (Hayek 1972:xi–xii).

It is in this way that interventionism not only creates the price distortions that drive the logic of the interventionist process, but also impinges directly on the underlying norms, such as respect for liberty, that support the catallaxy, itself.<sup>10</sup> I focus on the *local* character of these norms because it is at the level of the individual operating in his locality, first, that these norms emerge and are shaped and, second, that they directly influence the operation of the market process.

Just as interventionism can alter norms in a manner that raises public choosers' propensity to support political action at the expense of individual freedom, it can also alter trust levels in ways that promote state expansion. While pointing out the role of trust in arms-length business dealings is nothing new, there is an aspect of trust in such dealings that is less appreciated: namely, the creation of a social environment conducive to entrepreneurial discovery in the catallaxy. We have seen that Hayek refers to trust also in this broader sense. In particular, the broader meaning of *trust* refers to the belief or faith,<sup>11</sup> often tacit, that at critical points others will act, though their agency could lead them to act otherwise, in ways complementary to one's own plan; or that at critical points these others will not take advantage of one's vulnerability.<sup>12</sup> In large, densely populated settlements, cities in particular, these "others" are usually complete or comparative strangers. The more trust one can place in the strangers one encounters in a particular city or in other cities, other things equal, the more opportunities for complex and long-term planning and transacting there are to be discovered. It is in this way that trust promotes entrepreneurship.

For example, economists have learned to appreciate the importance of norms for a healthy market process from the attempt to establish free markets in the former Soviet Union (Boettke 1999). The results of introducing the legal foundations of the catallaxy—property rights, contracts, and the rule of law—have been so far mostly disappointing, at least in part owing to the absence there of institutions that promote trust, which in long-established liberal societies we tend to take for granted. Hayek has shown that the price mechanism under private property, contracts, and the rule of law makes it *possible* for a given individual to tacitly rely on and trust in countless anonymous and free-willed individuals, as well as those with whom one might do business. Yet, even with these institutions in place, he may be *unwilling* to engage in trade with strangers in the absence of sufficient levels of trust, and thus limit his trust to, for example, kinship groups or religious fraternities.<sup>13</sup>

While there are substitutes for trust, such as the threat of violence or the avoidance of strangers altogether, they are poor ones from the standpoint of promoting the kind of stable cooperation that can create material prosperity within a community and encourage the use of the price system. More significant for present purposes than material gain, however, is the impact the absence of trust has on the constraints on state expansion.

*How Changes in Local Knowledge Reinforce the Interventionist Process: Norms and Trust*

Mises remarks that at each stage of the interventionist process, public choosers can solve the problems that their prior interventions have created in one of two ways. They can either continue to broaden the scope of their interventions—and in the extreme case “rationalize” the accumulated hodgepodge of interventions by completely collectivizing the system—or “dis-intervene” and radically dismantle the tangle of interventions their piecemeal approach to governmental problem-solving has created. Since the cumulative process of discoordination can take many years, however, the so-called mixed economy may persist for some time.

Yet there are two factors that make disintervention difficult. First, the progressive distortions in relative prices that result from cumulative interventions tend to obscure the actual sources of the negative side-effects of interventions, making their proper identification and successful correction problematic (Ikeda 1998). Second, and of primary concern here, interventions affect local knowledge in such a way that the preferences of public choosers shift, away from a disposition against, toward a disposition in favor of further intervention, or from private to collective solutions to socio-economic problems.

*Intervention-Reinforcing Changes in Norms*

Hayek was quoted earlier in reference to interventionism’s impact on “the political ideals of a people and its attitude toward authority,” but its effects are not limited to the domain of political attitudes and ideology. Indeed, another consequence of interventionism operates through what one might term a “dynamic tradeoff” between personal freedom and security.

[T]he more we try to provide full security by interfering with the market system, the greater the insecurity becomes; and, what is worse, the greater becomes the contrast between the security of those whom it is granted as a privilege and the ever increasing insecurity of the underprivileged. And the more security becomes a privilege, and the greater the danger to those excluded from it, the higher will security be prized (Hayek 1972:130).

Thus, as interventionism (especially income redistribution (Ikeda 1997:164–192)) progresses, the preferences of public choosers tend to shift in favor of more security and less personal freedom, eroding a fundamental norm of the unhampered market process. At the same time interventionism, itself, tends perversely to generate growing levels of insecurity. The erosion of confidence in the efficacy of personal effort to secure a comfortable livelihood, and the consequent increased dependency on political means to secure that end, is one manifestation of the logic that drives the *nonprice dynamics* of interventionism.

Nathan Glazer and Charles Murray provide other instances of this logic that are based on changes in the norms that support social institutions. Both have concluded that misguided social policy, beginning especially in the mid-1960s, has generated frustrated interventionist intentions by disrupting the fabric of informal social relationships. That fabric, what Glazer calls the “fine structure society” and Murray “affiliations,” encompasses informal social orders or formal mediating organizations that serve not only to coordinate and assimilate diverse individuals and groups within society, but also to act as a buffer between the

individual and the state. Examples would include schools, churches, clubs, neighborhood associations, and unions.<sup>14</sup>

Informal personal relations with neighbors, co-workers, etc., constitute the building blocks of some of these more elaborate social orders and enrich the daily life of the inhabitants of a community (Murray 1988:260–292). A delicatessen who lets you buy on credit in a pinch, or a person who walks in that you recognize from casual acquaintance as a friendly fellow, or a shopkeeper who will hold a spare set of apartment keys for you are examples. Small acts of affiliation make up larger ones (*Ibid.*:262), such as church-sponsored meals for shut-ins, informal child monitoring provided by neighbors looking out their windows, or the tacit support you feel from local but nameless persons when considering whether to intervene into a struggle between adult and child, whose relationship to each other you are unsure.<sup>15</sup>

Such affiliations are not strictly necessary for communities to function, but they are if that community is to function well. Moreover, their informal character is important for the vitality of a community. For when formal, especially bureaucratic, relations displace the informal ones, two things happen. First, additional red tape raises the cost of providing the service while expanding its scope, making operations more rule-driven, impersonal, cumbersome, and less attuned to the needs of individual recipients. Second, the moral gratification felt by people volunteering in their spare time is replaced by the wages of workers in a paying job; the mixed feelings of shame and gratitude of the deserving poor toward charity received becomes the rightful expectations of qualified recipients; and as acts of charity are replaced by forced takings out of hard-earned income, benefactors become disgruntled taxpayers (Glazer 1988:129–131). Neighborly child monitoring becomes formal day care; keeping the street safe—the domain of Jane Jacobs’s “public characters”—becomes the job of the police; and lending an acquaintance money to get through hard times becomes the responsibility of a governmental program.<sup>16</sup> Again, one set of norms is replaced by another that is more inhospitable to voluntary trade and entrepreneurial initiative.

The substitution of governmental for private welfare services tends to reduce the happiness of all concerned, the irony of which is that recipients and their “advocates” will as a consequence demand ever more intervention (Murray 1988:264–267). Increasing monetary and in-kind redistribution also sets into motion a “revolution of rising expectations,” in which “we become ever more sensitive to smaller and smaller degrees of inequality” (Glazer 1988:4). As in Hayek’s dynamic tradeoff phenomenon, the demand for further intervention tends to follow governmental efforts, the result of which is the relentless erosion of the fine structure of society. Norms as expectations regarding what is acceptable behavior, ranging from cordial relations between arm-length acquaintances to informal customs to systems of moral conduct, are profoundly vulnerable to interventionism.

#### *Intervention-Reinforcing Changes in Trust*

In Francis Fukuyama’s analysis (1995), it is also the case that government intervention destroys extra-familial, community organizations—the fine structure of society—much as Glazer and Murray describe. He further argues however that these organizations serve as both informational networks for citizens of a community and, building on the insights of

Tocqueville, as sources of nongovernmental solutions to social problems and needs. In our interpretation, these nongovernmental solutions are intimately bound up with the existence of trust among members of the catallaxy. Trust both supports and is in turn supported by what he terms “spontaneous sociability,” which “refers to that wide range of intermediate communities distinct from the family. . .” (*Ibid.*:27). Trust may emerge within a particular set of social institutions (including norms regarding civil conduct and the like, formal and informal rules, and private property). However, where trust is the exception rather than the rule, individuals would soon realize that they are at the mercy of others and the more prudent among them would conduct themselves in public as if their vulnerability would in fact be exploited.<sup>17</sup>

Fukuyama notes that “governments often have to step in to promote community when there is a deficit of spontaneous sociability. But state intervention poses distinct risks, since it can all too easily undermine the spontaneous communities established in civil society” (*Ibid.*).<sup>18</sup> Citizens of low-trust societies may then welcome the formal cooperation imposed by state programs and policies in order to be more certain that their expectations of role fulfillment on the part of others will be correct, even though their expectations may be very low. Hence, according to Fukuyama, interventionism may be employed as a substitute for trust as a means of achieving cooperation among strangers in the absence of trust, but can itself destroy the trust-promoting informal networks, affiliations, and voluntary mediating organizations that make the intervention necessary in the first place. In such a vacuum, the expansion of state power meets with little objection or resistance.

### Cities and Local Knowledge

*Cities are, by definition, full of strangers. . . The bedrock attribute of a successful city district is that a person must feel personally safe and secure on the street among all those strangers.*

(Jacobs 1961:30)

The urban anthropologist Jane Jacobs defines a *city* as “a settlement that consistently generates its own economic growth from its own local economy” (Jacobs 1969:262). For Jacobs, as for Austrians, the city is a spontaneous order: self-ordering, self-sustaining, and self-regulating.<sup>19</sup> Echoing the methodological individualism of Austrian economics, Jacobs argues that the life of a city and its economic prosperity percolates up from the people, whose expectations of interactions with one another on the streets and sidewalks are the building blocks of a city’s social order. In successful city neighborhoods and districts large numbers of people occupy public spaces—e.g., streets, sidewalks, and parks—at all hours of the day, and consequently any given inhabitant will be ignorant of the vast majority of those they might encounter there, and they of him. Thus, the starting point of Jacobs’s analysis is the attempt to explain how cities full of strangers manage to achieve the high level of social cooperation needed to consistently generate their own economic growth.

Here trust plays a vital role. But Jacobs has shown that a prior condition for the emergence of trust is the expectation that one’s physical safety and security in public spaces will not

be endangered. The expectation of safety and security is a “bedrock attribute” for Jacobs because without it the peaceful interactions strangers have with one another in public, which form the basis of trust and other complex social institutions, could not even begin to emerge. A degree of social cooperation of a sort can be achieved, in the last resort, through government coercion. The challenge for social theory, and Jacobs, is to explain whether and under what conditions such cooperation can emerge spontaneously.

One of Jacobs’s principal contributions to our understanding of cities as spontaneous orders is her insight that safety and ultimately trust depends to a surprisingly high degree on the structure and location of public spaces,<sup>20</sup> and that the relations that emerge spontaneously from a secure foundation of trust support essentially self-ordering processes of discovery and economic growth.<sup>21</sup> She specifies four conditions that help to generate the spontaneous formation of these social phenomena. First, public spaces should have mixed primary uses (i.e., that attract people to particular districts) so that people use them in large numbers at different times of the day. Second, short blocks with frequent opportunities for people to turn corners and vary their routes make streets more interesting. They multiply the number of potential meeting points, increase one’s exposure to more of the intricacies of the local environment, and increase the chances of seeing the unexpected and making unexpected connections. Third, interspersed with newer buildings should be old ones that have lower property values, so that new ideas have a less costly way to become established. “New ideas,” Jacobs says, “must use old buildings.” And fourth, there needs to be a sufficiently dense concentration of people, for whatever purpose they may be there, in order to promote both safety and a high demand for an array of uses, including residential, recreational, and work-related. These conditions interact with one another so that, for example, dense concentrations of people contribute to the emergence of mixed primary uses, and vice versa.<sup>22</sup>

Under these conditions there can arise “eyes on the street” (Jacobs 1961:35,42). That is, streets, or public spaces more generally, can become foci of interest to those who live, work, or take their leisure there; but these inhabitants must also possess knowledge, at least tacitly, of the lines of communication and structures of support on which they can confidently rely should the need arise. There should be “the almost unconscious reassurance of general street support in upholding civilization” (*Ibid.*:42). Any breakdown in these support structures ultimately reduces the overall security of the street and beyond. Much of this knowledge, what Jacobs calls “locality knowledge,” consists of knowing how to get things done, but also of knowing whom to trust and under what circumstances. Finally, trust feeds back into and reinforces the expectation of safety and security, for when people can expect strangers to help them uphold community norms (i.e., when there is trust) they also feel safer and more secure in public spaces.

Naturally, an economist should use care in interpreting these four conditions. (See previous note.) The point is not that they are strictly necessary for the establishment of safety, trust, etc. (although perhaps a case can be made for their sufficiency). As Jacobs herself recognized in the preface of the Modern Library’s reissue of her 1961 classic she was mainly concerned with promoting a pedestrian culture whereas many feel more comfortable in a car culture. Her fundamental point, however, remains: that successful cities require a culture that reinforces safety and the norms of trust and reciprocity that arise from informal contact and communication. Although the form of great cities is always evolving, from



traditional downtowns to Edge Cities, the conditions that give rise to safety and trust remain surprisingly unchanged—a point I take up in the final section of this article.

Networks of trust depend on lines of communication, parts of which consist of ordinary inhabitants paying attention to what's going on. Another part consists of "public characters," that is, according to Jacobs, "anyone who is in frequent contact with a wide circle of people and who is sufficiently interested to make himself a public character" (*Ibid.*:68). They are the nodes of, for example, street grapevine systems, which spread information relevant to inhabitants of a community and link anonymous strangers to one another.<sup>23</sup> They include such formal position-holders as directors of schools, church leaders, and presidents of neighborhood associations, but also include local vendors, doormen, and regular park-goers or stoop sitters. From them one learns about the appearance of shady characters in the neighborhood, directions to the nearest family restaurant, or, most important in large cities, local parking rules. This is mundane, but important, knowledge of time and place for maintaining a healthy community of strangers in safety and security. Its emergence, which may take years to occur, is both a function of and a contribution to an interesting and lively social environment that is vitally important if inhabitants are to utilize their local public spaces and bother to direct their eyes toward them in the first place. These communication and trust networks, then, support the more formal business practices in a successful district, indirectly but crucially, and in this way promote the more extensive use of markets and the price system.

The trust that evolves in such a milieu serves as a foundation for dynamic economic processes. It encourages a mixture of primary and supporting secondary uses of public spaces within a given district—including industries, schools, residences, government and business offices, movie houses, all-night groceries, gas stations, bookstores, restaurants, churches—attracting growing numbers of people at different times of the day. Such an environment also attracts further diversity in the use of public spaces and networks of what Jacobs terms "codevelopment"—a sort of interdependence and complementarity among primary and supporting activities (e.g., the synergy among investment banks, insurance companies, and attorneys' offices in Wall Street) that especially thrive in large settlements (Jacobs 1999:19). Like trust, codevelopment is an outcome of a successful neighborhood district as well as a basis for future growth and adjustment.

When the elements of codevelopment are in place, cities can become "the natural generators of diversity and prolific incubators of new enterprises and ideas of all kinds" (Jacobs 1961:145). The opportunities for chance meetings, serendipitous connections, and accidental discoveries are tremendously multiplied in such an environment. That is because there exist in great cities public and semi-public meeting and gathering places—e.g., coffee houses, restaurants, bookstores, university seminars, specialty shops, unusual neighborhoods, theaters, museums, and parks and plazas—that are of such number and variety compared to those found in smaller settlements that they really constitute a difference in kind rather than degree. In this way, great cities serve as the primary incubators of new ideas and entrepreneurship, and there is in them a strong tendency to be not only the financial and political centers of the regions in which they reside but, perforce, the creative centers as well. They are thus the engines of economic and cultural change, and dominate political landscape of modern society.<sup>24</sup> It is also no coincidence that the advance of civilization has largely been the story of the progress of cities.<sup>25</sup> Local knowledge of informal trust, based

on a foundation of norms, and networks of codevelopment are most highly developed within them. A great city is a spontaneous order *par excellence*: a self-ordering, self-regulating, and self-sustaining phenomenon, the overall characteristics of which evolve over time without the need for deliberate human design.<sup>26</sup>

In rich urban settings such as these, the abundance of opportunities and high levels of trust enable entrepreneurs to rely with greater assurance on the impersonal operation of the price system and the anonymous decision-makers who use it. Economists are fond of arguing that the price system permits us to *economize* on the amount of knowledge it is necessary to command in order to act successfully among the myriad of strangers that we depend on daily. Yet, recognizing that those actions are embedded in a particular local context within which we actually interact with some of those strangers tends to highlight the opposite—that the amount of detailed knowledge that each of us needs to know in order to successfully utilize the price system is in fact *enormous*.

But just as cities are the creative engines of society, they are also the natural conduits of economic and social policy. (And public policies executed at the national level are frequently inspired by local policy initiatives and ideas.) Cities transmit the repercussions of interventions throughout the market process. While it is true that some interventions apply to the entire economic system (e.g., regulations pertaining to finance, health and workplace safety, income distribution, and the environment) most interventions are directed more narrowly toward urban regions (e.g., policies regarding housing, education, crime, drugs). But even macroeconomic interventions of the first type must initially impinge on local businesses and households that are disproportionately located in cities, and where unique local conditions will modify the effects of the same kinds of interventions. They enter the catallaxy, as it were, through the portal of cities.

### **Interventionist Distortions in the Fine Structure of Society: The Case of Urban Planning**

This section considers urban renewal policies of the 1950s and 60s in New York City to illustrate in greater detail the nonprice dynamics involving norms, trust, and fine structures that have been described in general terms already. The dynamics of urban renewal, which have profound consequences for the market process and the level of participation in the catallaxy, have been under-appreciated by economists. I frame the analysis by contrasting the viewpoints of Jacobs and the great urban planner, Robert Moses.

Robert Moses was a brilliant and tireless public official who dominated almost everything having to do with public construction in New York City and New York State for four decades (roughly from the late 1920s through the mid-1960s).<sup>27</sup> In New York City, he widened streets, laid highways, created or refurbished scores of parks, built monumental bridges and the approaches to them, erected enormous public buildings and plazas, and constructed some of the City's first public housing. His was a grand vision of the City with vast public spaces and ribbons of multi-laned expressways filled with automobiles crisscrossing every borough. It was a vision to which he devoted all of his considerable energy and intellect, not to mention his extraordinary political power and personal influence, to realize during a long public life. But to make way for his ambitious public projects within a city with relatively

fixed borders meant that whole blocks, neighborhoods, and sometimes entire districts had to be gutted or razed. His “top down” approach to public service placed him squarely at odds with Jacobs, whose ideas were grounded, as we have seen, in a view of cities as spontaneous orders. Moses, to use Hayek’s terminology, was a classic constructivist rationalist.

To see his impact on New York from a Jacobsian, methodologically individualist, perspective, let us return for a moment to one of Jacobs’s observations: the importance of streets and sidewalks—the “most vital organs” of a city. To encourage the variety of uses of public spaces at various times that is critical for enabling safety and trust networks to evolve, sidewalks must be wide enough to allow for the emergence of an active “street life.” Wide sidewalks have implications for safety and trust networks in that they permit children to play on them and that parents or informal monitors (neighbors and vendors) can keep an eye on them; they accommodate newsstands, hotdogs carts, and public characters; they allow people to meet and have conversations and exchange local information. The sociological function of sidewalks in short is to enable and encourage face-to-face contact, the indispensable ingredient for informal communication networks and the dissemination of locality knowledge.<sup>28</sup>

The importance of personal contact is often discounted in modern discussions about the implications of a technologically advanced society. What use is face-to-face contact, the argument goes, in the age of the internet (or telephone or telegraph)?<sup>29</sup> Pierre Desrochers cites its importance even for the high-tech industries found in Silicon Valley with respect to supplying nonstandardized information where “the important knowledge is uncodified and is not available in any formalized mode of communication” (1997:15). He also offers the following anecdote, which illustrates how personal contact can result in unexpected opportunities:

Being where your partners are is an important asset. Socializing with them allows the opportunity to ask for advice or for a specific bit of information, but it can also lead to unexpected benefits. Informal encounters where one person says to a second, “What are you working on?” and where a third jumps in and adds “I know somebody you’ve got to talk to; I’ll call you with the number” are often very fruitful. Although encounters of this kind might last less than two minutes, they may prove to be the most productive encounter of the entire day for everybody involved (*Ibid.*:16).

Face-to-face contact remains important in a high-tech environment with its sophisticated array of communications hardware, and it is even more vital to city neighborhoods and districts. Informal networks, affiliations, and public characters still play an indispensable role.

The people who embody local knowledge are a far cry from the “statistical people” who populate the surveys of many urban planners. According to Jacobs:

Statistical people are a fiction for many reasons, one of which is that they are treated as if infinitely interchangeable. Real people are unique, they invest years of their lives in significant relationships with other unique people and are not interchangeable in the least. Severed from their relationships, they are destroyed as effective social beings—sometimes for a little while, sometimes forever (*Ibid.*:136).<sup>30</sup>

So, when neighborhoods are wrecked in the service of bettering the living conditions of statistical people, the lives of real people such as public characters, the local contextual knowledge they possess, and their critical place in information networks are wrecked along with them. As it turns out, sometimes it takes very little to ruin a neighborhood – something as simple as widening a street.

Widening an active urban street in a crowded city means narrowing its sidewalks. If the sidewalks become too narrow, those social interactions among strangers and the affiliations and institutions built upon them can no longer function. The “dynamics of decline” as Jacobs puts it, are then set into motion—it is just the process of economic development in reverse. Without the ability to make contact, the communication of local knowledge is impeded and the flow of foot-traffic reduced; the street becomes less interesting and trust is diminished; conditions less favorable to mixed uses vanish with fewer people, compounding the problems of safety and increasing the dullness of the area. If, for example, the neighborhood declines sufficiently over time, the absence of eyes-on-the-street invites more uncivil activity, perhaps increasing the demand for police, substituting coercion for the norms of civility, while reducing further the use of public spaces for business and pleasure, and dampening the provision of taxable services. As the local tax base erodes, city services may suffer (e.g., public schools, garbage pickup). If the area deteriorates to the point of being blighted, the city government may attempt to reinvigorate business by subsidizing businesses. Often these are large chains whose economic connection to the community will be minimal (i.e., a Key Food will not buy bread from local bakers),<sup>31</sup> or perhaps the construction of subsidized housing or projects (as had occurred in the New York neighborhood of Chelsea).

The clearing of poor neighborhoods and their replacement with public housing itself can initiate a Jacobsian dynamic of decline. Massive public housing and urban renewal, examples of what Jacobs terms “cataclysmic money” (Jacobs 1961:291–317) can threaten the stability of local communities because of the drastic changes it brings to an area in a time period too short for the informal networks to form that are needed for healthy economic development. The government-instigated urban renewal and redevelopment of a poor neighborhood typically comes in the form of cataclysmic money, “a cataclysm which would destroy its complexity, disperse its people and wipe out its businessmen” (*Ibid.*:296). This is what happened under Robert Moses’ plan for urban renewal in New York City. Under a legislative provision called “Title I,” which he himself drafted, Moses was, by a highly conservative estimate, able to displace 170,000 persons in seven years (Caro 1974:967). In subsequent years, Title I clearances were to displace (again, by conservative estimate) many tens of thousands more.

But most perniciously, it was later found that these displaced persons tended to simply migrate to neighboring streets and blocks, causing overcrowded conditions and degeneration of the fine structure in those areas, as well as dramatic declines in local business activity. According to Robert Caro, Moses’ biographer, Title I under Robert Moses was “creating new slums faster than it was clearing old ones” (Caro 1974:976). Moses’ response, with the passive support of the general public and many of New York’s intelligentsia, was simply to condemn those areas under Title I as well.<sup>32</sup> This spreading of slum neighborhoods and destruction of fine structures and local businesses were thus an unintended but, in light of

Jacobs's analysis of the social structure of neighborhoods, inevitable and broadly predictable (in Hayek's sense of "pattern prediction" (1967:3–21)) result of Moses' heavy-handedness.

In line with the pattern predictions of the theory of interventionism, the negative consequences of Moses' projects and the dynamics of decline that it set in motion lay undetected for years outside the communities directly affected. Only when the supporters of Moses' policies began to directly feel the consequences of his policies did New York City begin to abandon those policies—and Robert Moses.

### **“Smart Growth” and “The New Urbanism”**

Similarly, policies like Moses' have contributed to what many today refer to disparagingly as “urban sprawl.” Many contend that this was the result of a combination of promoting the construction of vast superhighways, which made the automobile the primary means of urban transport, and the post-WWII creation of federally supported mortgage markets and insurance (So and Getzels 1988:398). To these factors might be added other, indirect financial incentives to suburbanization including federal subsidies to municipal sewage systems, tax breaks in which a homeowner escapes paying capital gains on the sale of a house so long as he uses the proceeds to buy another house of equal or greater value, and accelerated depreciation on new building (Hanchett 2000).

Consistent with the theory of interventionism, the response of public choosers has been, not to remove the interventions ultimately responsible for the condition, but to push for further interventions, under the banners of so-called “smart growth” and “New Urbanism,”<sup>33</sup> such as greater controls on auto usage, narrower limits on residential density, and the prohibition of private construction on “green belts.”

Other articles in this Symposium critique these planning and design movements at length. I would add that these movements seem to have drawn some of their inspiration from Jacobs's critique of urban planning. Thus, from the *Charter of the New Urbanism*: “The Congress for the New Urbanism views disinvestments in central cities, the spread of placeless sprawl, increasing separation by race and income, and the erosion of society's built heritage as one interrelated community-building challenge” (Leccese and McCormick 2000:5). The emphasis on community-building, on pedestrian-friendly downtowns, and high residential densities appear to reflect Jacobs's observations on what makes for successful cities. However, the policy recommendations that issue from these movements tend to be, contrary to the spirit of Jacobs and her appreciation of cities as spontaneous orders, at least as interventionist as those of Moses' urban renewal and no less ambitious. Strong central planning is still required, they argue, but based on a better set of principles (and people?). In this sense, the term “smart growth” is apt, for it echoes a sentiment heard in the early 20th century that the “blind forces of the market” generates chaotic development without the intelligent and benevolent guiding hand of government.

Part of the response of these movements, especially perhaps New Urbanism, derives I believe from a vision of the city as fundamentally static as well as a failure to understand Jacobs's vision of the city as a spontaneous order. Cities evolve, and the post-World-War II (post-Modern?) city is no different in that regard than the European towns in the High Middle Ages that were on the verge of becoming the great cities of the Renaissance.<sup>34</sup> Thus,

cities are ever-changing, but great cities, whatever their form have been shown to be central to cultural achievement.<sup>35</sup>

Post-World-War II urban evolution, though distorted by the governmental policies, can be seen in part as a transition from old city forms with traditional downtowns to, in some cases, new Edge Cities. Garreau's emphasis on the importance in Edge Cities of safety, density, face-to-face contact, and mixed primary uses is simply Jacobs interpreted for the 21st century and the automobile. But far from contradicting the insights of Jacobs, these new developments in fact reflect Jacobsian concerns in a fundamental sense. According to Garreau, they are "placeless" only to those who don't live, work, and play in them. The New Urbanism, reacting to urban and suburban developments before they have matured, can be seen as an attempt to impose its own vision of "spontaneous order" based on a profound distrust of the goals and ingenuity of ordinary people.

### **Summary and Concluding Thoughts**

In this paper I have attempted to extend the theory of interventionism by observing the impact of interventionism on norms and trust. The local knowledge goes beyond skills and know-how regarding production to include, as Hayek himself suggested, the norms and trust that free individuals must possess if they are to engage successfully in creative activity in their locales. I have attempted to identify the norms, affiliations, and physical features that help to promote the social matrix within which, over time, trust can emerge; and have argued that this matrix is most highly evolved in the great urban centers of economy and culture. With a sufficiently high degree of trust, great cities become incubators of entrepreneurial as well as cultural innovations. Evidence for such levels of trust, or the lack of it, can be sought (following Jacobs) in the location and design of public spaces and (following Murray, Glazer, and Fukuyama) in the extent to which community services are provided privately or governmentally in a community. I have argued that social-policy interventions (e.g., income redistribution and in-kind services) initiate changes within the norm-based fine structure of a community that serve to reinforce the interventionist dynamic that is set into motion when authorities tamper with relative prices. Finally, while Mises and Hayek have taught us that, without the price system, relevant local knowledge may go unexploited, it appears to be equally true that the absence of adequate levels of trust and the proper norms undermines individuals' incentives to participate in market exchange price system.

The question might naturally arise at this point regarding the wisdom of interventionist planning in general. On the one hand, one might think that the frustrated intentions manifested in the case of urban renewal in New York City might be extended to other types of intervention. Here I would only wish to say that *at least* some types of urban policies, such as the one examined here, are subject to an interventionist dynamic that operates through both price and nonprice dimensions. All interventions, local or macroeconomic have local effects on contextual knowledge of the kind described in this paper. However, some matter more, some less. It remains for further inquiry to judge just how locally based, and especially urban-centered, the theory of interventionist price and nonprice dynamics should be.

On the other hand, one might be persuaded that in thinking about the significance of public spaces on urban-entrepreneurial processes that the emphasis should be placed on

their designed character—i.e., that they result at least in part from conscious planning. On this, paraphrasing Mises, the issue from the viewpoint of economics is not “planning versus no planning,” but rather “who should do the planning?” Clearly the basic lesson from urban renewal efforts is that municipal policy, whether activist or laissez-faire, should somehow incorporate the relevant knowledge and purposes of the primary users of the public spaces concerned. This is not to say, however, that community voter referenda, planning-board hearings, “town meetings,” or other kinds of political solutions are the only or even the most effective means of gathering the information that will be used to successfully plan. We have seen that much of the local knowledge that is relevant to the success of a community is contextual, at least partly inarticulable, and thus difficult if not impossible to transmit effectively to central authorities. One lesson we have learned from studying governmental and market processes is that whether society makes the best use of that knowledge will depend on the extent to which public choosers are willing to rely on nongovernmental mediating organizations and emergent social institutions. Before considering any sort of activist policy, therefore, it would be prudent to understand, in Jacobs’s phrase, “what kind of problem a city is”—namely, a problem of spontaneous order.

### Notes

1. I do not here explicitly consider the case of the so-called “edge cities”—relatively new settlements that do not have traditional urban centers—although the discussion in Joel Garreau’s pioneering book, *Edge City* (Garreau 1991:37, 47, 49), suggests to me that many of the conclusions of this paper regarding “great cities” extends to edge cities, as well. For example, Garreau observes: “Edge cities means density is back. ‘Maybe the wonder,’ said the urbanologist Jane Jacobs in a interview, ‘is how *thin* [emphasis original] things got.’”
2. Those unfamiliar with the theory of interventionism should consult Mises (1977) and Ikeda (1997). For introductions to the basic framework of market-process theory, which serves as the backdrop for the theory of interventionism, see Mises (1966), Hayek (1948), Kirzner (1972), and Ikeda (1994).
3. See Ikeda (1997), especially Chapters 4 and 5.
4. For an argument that this process does in fact entail progressive discoordination, see Ikeda (1998).
5. Such disruptions do inevitably occur, however, for two reasons. First, the private wealth that finances the policy of interventionism (through taxation or inflation) will run out or become less accessible (Mises 1966:855–858). That is, incentives to produce wealth weaken and incentives to hide it grow. Also, coordination among individual plans becomes increasingly problematic as the knowledge of scarcities, which are reflected in relative prices, becomes compromised by regulatory distortions. This means that when interventions result in chronic shortages, policy solutions will be harder to find and implement. This is related to the second source of disruptions. Interventionism, because it contributes to the cumulative distortion of relative-price signals, (as we see below, interventionism also profoundly affects ideological preferences and norms, two forms of local knowledge) makes entrepreneurial discovery and correction of market errors increasingly problematic (Ikeda 1998). So even with sufficient finance the interventionist process would in time face a crisis owing to a breakdown in coordination at the systemic level. Thus, as Mises concluded, interventionism as a system, is highly unstable and ultimately unworkable (Mises 1977).
6. In his later writings, Hayek has emphasized the tacit nature of certain social rules that also cannot be conveyed (see especially “The errors of constructivism” in Hayek 1978:8–9). We can easily *say* that we trust someone, but what we *mean* by that is harder to articulate.
7. See Putnam (2000) for a good recent example.
8. For further discussion of the role of social capital in the market process see Ikeda (2002).
9. Here, a *norm* serves to tell me the circumstances under which particular actions, my own or someone else’s, would be acceptable or appropriate. I prefer this term to “ideology,” which I have used elsewhere Ikeda (1997) for the same purpose, because the latter may suggest a degree of consistency and comprehensiveness that I now believe is not necessary for this purpose.

10. For a much more extensive discussion of the different ways in which these norms influence the interventionist process, see Ikeda (1997), especially pp. 176–185. Klein (1997) addresses the issue of trust from a complementary perspective.
11. I use the terms belief or faith here, rather than “confidence” or “reliance,” in order to stress the fiduciary dimension of trust that exists owing to the uncertainty created by the presence of free agency in others, whom one expects, with less than complete certainty, to fulfill certain role expectations. Thus, the philosopher Adam Seligman refers to Niklas Luhmann’s distinction between “*trust* in persons and *confidence* in institutions” (Seligman 1997:18).
12. According to Francis Fukuyama: “Trust is the expectation that arises within a community of regular, honest, and cooperative behavior, based on commonly shared norms, on the part of other members of that community” (1995:26).
13. See Fukuyama (1995:61–145). Putnam (2000:22) makes a very helpful distinction between trust within a closed community or “bonding social capital” and trust among strangers or “bridging social capital.”
14. For both Murray and Glazer, the family is also an important part of the social fabric. For present purposes, it is the extra-familial, non-kinship relationships that matter.
15. Jacobs provides a marvelous example of this last situation, and the role of a strong trust network among local inhabitants, in 1961:38–39.
16. See in general the discussions in Murray (1988), Glazer (1988), and Jacobs (1961).
17. Virgil Storr has brought this to my attention.
18. Drawing on the writings of Tocqueville, for example, Fukuyama analyzes French society, which he characterizes as relatively low-trust:

The historical origins of the French propensity for centralization and the corresponding weakness of associational life can be found in the victory of the French monarchy over its aristocratic rivals in the sixteenth and seventeenth centuries and its systematic suppression and subordination of alternative centers of power (*Ibid.*:119).

19. More precisely, Jacobs characterizes cities as problems of “organized complexity” (1961:428–448).
20. On the other hand, her relative neglect of the consequences of business regulation and rent control in her principal writings is regrettable. Salins and Mildner (1992) fills this gap in a way complementary to this article’s approach.
21. Recent economic literature calls to this phenomenon a “dynamic externality.” Glaeser et al. (1992) attempt to test this aspect of Jacobs’s thesis and find that “important knowledge spillovers might occur among industries rather than within industries, consistent with the theories of Jacobs.”
22. I have already made reference earlier to “edge cities,” which some, such as Garreau (1991), claim is new form of human settlement. While an analysis of edge cities is a subject for another paper, I would like to suggest the following updating of Jacobs’s conditions in light of this phenomenon. First, the attraction value of primary uses, such as residences and various kinds of complementary or codevelopmental work, is still recognized by Garreau. Second, while the absence of traditional streets in edge cities makes the requirement of short blocks problematic, the principal idea here is to increase meeting points, variety, and interest in a district, which appear to be accomplished in nontraditional ways in evolving edge cities. Third, the virtue of old buildings is the relatively cheap real estate they represent in growing cities, which edge cities achieve by taking root in districts far from expensive urban centers. Fourth, as cited in footnote 1, Garreau is quite Jacobsian in his recognition of the importance of density to a successful settlement. Indeed, Garreau appears on the whole surprisingly similar in spirit and approach to Jacobs. Thus, “Humans still put an overwhelming premium on face-to-face contact. Telephones, fax machines, electronic mail, and video conferencing. . . do not create interactions that end with either a fistfight or an embrace. ‘Trust’ is tough to build over a wire. Edge Cities prove that a market thrives on bringing people together physically. Humans are gregarious animals. . . The final value of Edge Cities is—social” (Garreau 1991:37).
23. They are “people who know unlikely people, and therefore eliminate the necessity for long chains of communication (which in real life would not occur at all) [. . .] These links require the growth of trust, the growth of cooperation that is, at least at first, apt to be happenstance and tentative” (Jacobs 1961:135).
24. Despite what has been said about edge cities, they are still found exclusively, at least so far, near large urban centers and “regional cities.” For example, I-29 near Boston and Silicon Valley near the San Francisco Bay.



25. Indeed, this is the unmistakable impression given in Mumford (1961).
26. While there is no denying the role of deliberate design in urban history, the spontaneous nature of urban development is equally undeniable. See for example Kostof (1999). Joseph Rykwert appears to disagree: "... the city did not grow, as the economists taught, by quasi-natural laws, but was a willed artifact, a human construct in which many conscious and unconscious factors played their part" (Rykwert 2000:5). I believe however that his disagreement is only apparent, as it is based on a too literal interpretation of "impersonal forces" (*Ibid.*:9–10) and his evident reliance on a natural-artificial dichotomy that limits, though doesn't prevent, his understanding of cities as spontaneous orders and certainly hampers his expression.
27. The standard reference for this history is Caro (1974), on which I have drawn in writing this section.
28. It is important to emphasize that sidewalks are simply a particular manifestation of the underlying function served by public spaces. In edge cities other kinds of public space may take on this function. Public spaces, of course, need not be publicly owned.
29. One of the largest mergers in history was recently executed by the CEOs of Citicorp and The Travelers Group [*USA Today* (7 April 1998)], who got to know each other after serving on the board of a real estate company: "We've served together about 20–25 years ago, and went through a bunch of problems with the company and got to know each other pretty well. . . . Sandy [Weill of Travelers] and I have gone through difficult times . . . When you do that, you see how people respond." Once again, face-to-face contact appears to play an important role in such financial deals. Note: It was recently reported in *The Wall Street Journal* (14 April 2000) that co-CEO John Reed has announced his retirement owing to a "personality clash" with Sandy Weill.
30. Compare with Hayek's critique of the use of statistics in central planning in "The use of knowledge in society," in Hayek (1948:83).
31. The point here is not that large chain supermarkets are inherently bad for the fine structure and local markets, but that, in a climate of decline, the introduction of these more impersonal businesses may often do more to harm the underlying personal affiliations of the fine structure than to economically benefit local inhabitants.
32. The whole premise behind urban renewal appears to have been flawed. What we call slums is simply where poor people live. To them, low-quality, low-rent housing is a necessity. Moreover, "to the people who lived in them, slums are *home*" (Caro 1974:970; emphasis original) and while slum dwellers have little to begin with, "what they did have their neighborhood gave them" (*Ibid.*:970, 971).
33. See Katz (1994) and Leccese and McCormick (2000). For a critique of the interventionism of the New Urbanism, see O'Toole (2000) and the other articles in this Symposium.
34. The standard reference is Henri Pirenne (1925).
35. This point is nowhere more clearly brought out than in Peter Hall's recent work (Hall 2001).

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