

## Supply Side Economics and the Park East Corridor

by Scott Niederjohn

Over two years ago, the Park East Freeway was removed on the north side of downtown Milwaukee to create over 26 acres of land that could be redeveloped for both residential and commercial purposes. The motivations behind the destruction of this freeway included the belief that the physical barrier created by this freeway stunted the growth of adjacent city neighborhoods and the expected increase in property tax collections available to local governments from the newly developed land being back on the property tax rolls.<sup>1</sup>

Of the land available for development in the Park East Corridor, the City of Milwaukee owns less than one acre while Milwaukee County owns sixteen acres. The remaining developable land is privately owned. Given the rarity of such a large parcel of vacant land in the downtown of a major American city, it was expected that real estate developers would line up to bid on projects for this new neighborhood. The removal of this freeway created hope that up to \$300 million in new commercial and residential projects might be developed.

In reality, the opposite situation has occurred. Nearly two years later, virtually nothing has been done with this prime real estate in downtown Milwaukee. Why is this? Basic supply-side economics provides part of the answer to this question.

Once the Park East freeway was demolished, local politicians turned their attention to crafting “community benefits agreements”. These types of agreements typically require developers to do a multitude of things including; pay union-scale “prevailing wages” to workers and develop affordable housing options. The Milwaukee Common Council chose not to require the community benefits agreement for their Park East land; however, the Milwaukee County Board had other ideas.

On the sixteen acres of land that Milwaukee County owns in the Park East corridor, a community benefits agreement was approved over the objections, and veto, of Milwaukee County Executive Scott Walker.<sup>2</sup> This benefits agreement included the prevailing union wages clause, mandates to build affordable housing and encouragements to build “environmentally friendly” developments in addition to other onerous rules and regulations.

What does all of this have to do with economics? How does it help to explain the lack of development in this seemingly ripe-for-growth area of Milwaukee? Every principles of microeconomics textbook includes a chapter on supply and demand. In the section on supply, students learn how firms decide how much of their good or service to supply. Let’s think about this concept from the standpoint of a company that produces and sells ice cream. What are the important factors that firms consider when deciding how much to produce? Obviously, the price of the good or service is of interest to them. In fact,

economic theory says that the higher the price, the more ice cream the firm wants to supply as a higher price makes producing ice cream more profitable. The next determinant of supply is the one that is of interest to our analysis here. The theory of supply says that firms are also concerned with their input prices – how much it costs them to supply the good or service. Our ice cream company would care about the prices of cream, sugar, flavoring, ice cream machines, the buildings used for production and the labor of workers needed to mix the ingredients and the operate the machines. When the price of one or many of these inputs rises, producing ice cream becomes less profitable, and the firm supplies less. If the input prices rise high enough, the firm will shut down and produce no ice cream at all.

This is exactly what is going on with the Park East development. Onerous rules passed by the Milwaukee County Board have made the input costs of “producing” development in the Park East Corridor more expensive by raising wages, controlling hiring and mandating what can and cannot be built. It should not be surprising to anyone that understands the basics of economics that this policy has led developers to produce their developments somewhere else, where the input costs are lower, and leave the Park East Corridor a barren wasteland.

---

<sup>1</sup> For more background on the development effort of the Park East Freeway corridor see: Mark Kass, “The Park East Turnaround: Why Nothing is Happening There”, *WI: Wisconsin Interest*, 2005: 14(2), 41-45.

<sup>2</sup> Umhoefer, Dave. “Board Overrides Park East Veto” *Milwaukee Journal Sentinel* (posted February 3, 2005).