

NIMBY? BACK YARD BONUS!

Communities bidding for ‘backyard bonus’ compensation packages could overcome NIMBY objections, suggest **Jeremy Shearmur** and **Richard Shearmur**

An obvious and often-discussed planning problem is the ‘NIMBY’ objection—that some project, agreed to be of general social benefit, is resisted by people because they do not wish it to be located near them: Not In My Back Yard! Such reactions are often deplored but there is no reason why they should be: it is by no means clear why people should suffer a loss just because it is to other people’s advantage that they should do so. If the result is that something that would be of general social benefit does not take place, this may be deplored. But the issue should be addressed in a practical and principled manner, rather than just moralised over. The answer *in principle* seems fairly obvious. If some people are being asked to bear a burden for the sake of overall social well-being, they should be compensated. They should receive what might be called a Back Yard Bonus or BYB. The more specific idea here is that they will then voluntarily assume the burden because they will judge it to be in their best interests to do so.

Inhaber and reverse Dutch auctions

An important suggestion as to how this might be accomplished is offered by Herbert Inhaber in his book *Slaying the NIMBY Dragon*.¹ His proposal is that local authorities, rather than having such projects foisted on them, should get to bid for them. Further, he suggests the model of a ‘reverse Dutch auction’ for such a process. For example, when an airline overbooks and too many passengers turn up it can offer passengers money in return for giving up their seats. The sums offered gradually increase, with the contract

going to the first person to accept the bid. The appeal of this idea can be seen in the ready acceptance of nuclear energy in France: Inhaber mentions that those located close to nuclear power stations are offered a substantial discount on their electricity.

Inhaber’s scheme is more elaborate. The process begins with environmental planning followed by local authorities bidding for the project. These authorities would employ specialists to advise them about sites and help prepare bids. Regulatory agencies scrutinise the details and payment is made after the winning proposal is passed.

This is the right kind of approach to this problem. Rather than people objecting to the site being located near them, they will welcome it—and, in fact, bid for it. However, Inhaber’s suggestion—while improving on the current stalemate—is not entirely practicable for two reasons. First, some important details relating to risk assessment and lack of perfect information

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need to be thought through. Second, and more fundamentally, the nature of the actors who bid in the auction, currently assumed to be local authorities, is problematic since these authorities are themselves constituted of individuals likely to have differing attitudes towards the project and risk. They also have geographic borders.² We first make some suggestions regarding risk assessment and information, before turning to a more fundamental question relating to actors in the bidding process.

A suggestion

Inhaber's proposals might be strengthened in a couple of ways. In addition to the government (we use this term as a matter of convenience, though major projects are often proposed by commercial companies) putting all its cards on the table—by making full disclosure to the public about the proposal and its risks so that interested parties can respond—it should also back its risk assessment with guarantees.³

First, the government should be required to take out insurance for a significant but limited sum, let's say \$50 million, for the occurrence of problems over and above those in its declared statement as to the risks involved. This insurance would be purchased only from companies (or via institutions such as Lloyds) that have assets to service such a charge, should it arise. The ability to purchase such insurance would be a check on the government's expert calculation of the risks.

Second, government should also assume unlimited liability for the occurrence of problems over and above this: if we ask people to assume a specific risk for the benefit of society, it is reasonable that the costs of uncertainty (of unknown risk over and above what has been agreed upon) be spread across society. Carrying a specified cost is one thing; carrying an open-ended risk is another.

A problem

There is however an obvious difficulty: there is a clear dis-analogy between reverse Dutch auctions for plane tickets and the problems that typically give rise to a NIMBY reaction. If I have an air ticket, then the costs and benefits of making or not making the flight fall almost exclusively on

me. Even when they do not—for example, if one's family or relatives are affected—then there is no problem about me being the decision-maker. By contrast, NIMBY problems typically affect many people and large areas. If I agree to a waste disposal or recycling plant on my land, it is likely residents nearby will have their peace disturbed by traffic generated by people going to and from the facility, and so on. The problems are rather complex and essentially of a geographic nature: neighbouring individuals may assess the same risk differently; non-neighbours, faced with different risks or costs, may value them on entirely different bases. Some people may be willing to have a waste tip or a power station located close to them if they are appropriately compensated. But it may equally be the case that others will not be willing to accept additional traffic coming past their house for any amount of compensation.

If some people are being asked to bear a burden for the sake of overall social well-being, they should be compensated.

Indeed, the problem may be still more difficult. For, in Inhaber's proposal, it is local authorities who bid. Local authorities are composite entities within which the NIMBY problem can replicate itself. If a local authority is making a bid, the rational response of those living within it would surely be to say: OK, I am in favour and delighted to pocket any compensation, provided that the facility is not sited close to me! One could then imagine that those with power within the local authority—electoral or otherwise—would enjoy the benefits while imposing the disadvantages onto the less powerful.

There are, indeed, some other complications. One of us lives in rural Australia in a local authority of quite extensive size. Locating a facility somewhere in our shire could be to the advantage of the bulk of the population—provided that it was in a site remote from them. The majority of the population could out-vote the locals who actually live in the remote area in

question. In addition, there is also the interesting problem that local authorities have borders—such that, again in the remote area, there would be an obvious incentive for local authorities to bid for a facility and then position it in such a way that it creates no problems for *their* constituents.⁴

These issues raise genuine problems but do not warrant scrapping the entire approach. It is still an attractive idea that: (i) people should voluntarily take up projects of greater social benefit; and (ii) they should be able to bid on them and accept the burden when, in their subjective judgment, the advantages outweigh the disadvantages. This process is surely better than either forcing projects onto people or simply giving them a veto. More thought needs to be given to the structuring of the consent procedure than simply placing bidding in the hands of a local authority.

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The structure of bidding

A government interested in developing a project involving locally unacceptable consequences should first set out detailed plans, including requirements upon any site and an estimate of the risks and the disadvantages for people in having the facility located close to them. The estimate would include an indication of the spatial extent and distribution of the risks and disadvantages. It would outline both the obvious risks and disadvantages, and also list additional problems that may occur. The estimate would be objective and if possible empirically grounded by drawing on prior examples. The risk assessment cannot be bargained away for a cash payoff—it would be unconscionable to allow the poor and ill-informed to receive cash benefits for locating close to them facilities that involve a high risk of death or disease.

As well as making available the full details of these plans for public scrutiny, the government should also discover—and publish—an estimate

of the cost of obtaining market insurance provision to cover: (a) the eventuation of risks listed; (b) any other risks, up to a sizable sum. This insurance is something that, if the project were to go ahead, the government would also need to purchase. This requirement would ensure that the estimates are reasonable and that compensation was available, should any of the risks eventuate.

Three features of this are worth stressing.

First, for each bid, the risks and disadvantages would need to be disaggregated and spatialised. For example, a waste recycling site would bring some disadvantages to those located nearby (smell, noise, flies, etc.), while others would suffer only from the increased traffic to and from the site. People could not expect to be compensated for things that fell within the ordinary kinds of land use already taking place (for example, those living on a main road would not require compensation for a significant increase of heavy traffic, but those living in a quiet country lane may well).

Different kinds of risks might be involved for different people. One move—which we do not particularly like but seems essential—is that the people offering the plan would have to stipulate a relative weighting for different people who would suffer from different disadvantages and risks. This is a somewhat arbitrary feature and has a top-down feel to it, but it is an essential feature to enable ordinary people to weigh the risks and judge what they would get if their bid were successful. Furthermore, the weighting scheme—which will need to be adapted to each site as part of the bidding process—should incorporate expert knowledge and evidence of the spatial diffusion of particular factors (dust, noise, smoke, smell, etc.). It would be publicly available and assessed by private insurers.⁵ From this weighting scheme, the local population could be classified into groups according to the extent and nature of the facility's impact upon them and, concomitantly, the expected compensation. Since, at the margin, the facility affects everyone, a cut-off point between those who are materially affected and those who are not is needed. Boundaries cannot be eliminated; however, they can be based on geographic risk

diffusion rather than having no connection with the facility whatsoever.

Second, the eventual acceptance of the agreement would need to receive support from each of the groups in question. This might take place by means of a ballot in which a supermajority—say 80%—of those in each category would be required for the scheme to go ahead. This is because a problem with collective decisions is that people's subjective judgments differ. For example, some people living in a country area might be willing to have a noisy facility located close to them, provided they got what they judged to be adequate compensation. For others—perhaps those who have just moved into their dream retirement cottage—nothing could compensate them. The supermajority would address this issue. If 80% of those similarly affected are happy about the offer, they will prevail; if the retirees feel that they must move, they can expect not to make too heavy a loss when they sell, because of the wide acceptability of the package.

Third, there is the local authority problem. We would resolve this by not having local authorities involved except for the scheme having to comply with planning regulations and receiving compensation if, say, distinctive costs are imposed. Who, then, would undertake the bidding? Communities themselves!

For the purpose of this exercise, communities will be defined in terms of location—geography and population distribution—so that they fit the facility's objective location requirements.

How would they be identified? The project proposal should include payment for the discovery of communities that may be affected. This idea echoes Inhaber's two-level structure: an initial fee would be paid for every well-constituted bid lodged and a much larger fee for the winner and, say, the two runners up. Any group can put forward a proposal for the facility to be located in their community. This structure would lead to the development of specialist commercial companies, which would look at these proposals and engage in a discovery process for communities that fit the objective specifications. Given that compensation would be due to each affected individual if the development were to go

ahead, there would be an incentive to meet the specifications in ways that involved as few people and as low a disadvantage and risk to them as possible.

From the outset, geographic risk assessment (spatialising risks and estimating who will be affected and to what extent) would be part of the community identification and bidding process. While it *could* be that those bidding feel themselves to be in some sense a natural community, in many ways what constitutes a community for these purposes will simply be whatever fits the specifications. As a result, the community will typically have to be discovered—or, perhaps better, created—by the discovery process of the commercial companies. Our suggestion is to harness the structure of the bidding process in such a way that it creates incentives to find the best possible sites—those that, given the protection of the plan's initial specifications (including limitations upon the kinds of risks that could be imposed on people), would require the least compensation for locating the site there.

Our suggestion is to harness the structure of the bidding process in such a way that it creates incentives to find the best possible sites.

Conclusion

This is only an outline of an approach: it preserves the merits of Inhaber's initial suggestion while offering some improvements to avoid re-creating the NIMBY problem within local authorities. This is not the last word on these issues but rather a basis for discussion. At the very least, it draws attention to Inhaber's key idea that people must accept these things willingly rather than having them simply forced upon them. At the same time, it resolves a key problem that faced his proposal, and in doing so integrates the possibilities opened up by spatial analysis and easy accessibility of geographic information tools in community decision-making.⁶

Obviously, other issues could be raised. For example, is it acceptable to have those who are

relatively poor get unpleasant facilities because they need the money? This is a real issue, but it seems that any discussion of it must be comparative. Given the way that politics typically works today, these are exactly the kind of people likely to have such things forced upon them. At least under our proposal, communities would be free to make a choice and receive a level of compensation that they themselves judge to be adequate. On this score, compared to what happens currently our backyard bonus proposal seems to be a real improvement.

body although we are obviously aware of the fact that many proposals of the kind with which we will be dealing, will be made by commercial companies. We do this largely for the sake of convenience, when operating under space limitations, so that we can easily set out our main ideas. In addition, bids by such commercial companies may well involve the government—for example, by way of its passing enabling legislation that blocks what might otherwise be ways in which their activities could be contested.

Endnotes

- 1 Herbert Inhaber, *Slaying the NIMBY Dragon* (New Brunswick and London: Transaction, 1998).
- 2 C.E. Neuzil, A Comment on 'A Creative Solution to the NIMBY problem,' *Groundwater* 41:6 (2002), 733. Neuzil raises the local authority problem without actually proposing a solution. In this paper, we explore ways around it.
- 3 In what follows in the paper, we will treat 'the government' as if it was, in fact, a governmental

- 4 C.E. Neuzil, as above, raises this problem.
- 5 The nature and cost of insurance, while part of the initial government proposal, will be customised to each site as local spatial factors (weather, population distribution, ground conditions) are taken into account. A winning bid may therefore be one that costs more in compensation but less in insurance. This is an incentive for appropriate sites (ones with lower risk) to be selected.
- 6 See Nadine Schurman, *GIS: A Short Introduction* (Oxford: Blackwell, 2004) and Maik Netzband, William Stefanov, and Charles Redman, *Applied Remote Sensing for Urban Planning, Governance and Sustainability* (Berlin: Springer Verlag, 2007).

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Greg Lindsay, Founder and Executive Director, CIS

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