

AICP STUDY GUIDE

Podcast

Episode 13: Show Me the Money!

And welcome, planners, to the thirteenth episode of the VERY UNofficial AICP podcast. I'm Jonathan Miller, and thank you all so much for joining.

I hope everyone enjoyed the weekend and got some relaxing and productive study time in, and got all refreshed for the week and final stretches before the exam. As your friendly reminder, there is only three days left until registration ends, and another 13 to 27 days until the exam window.

Time is running short, and there's just been too much material to try and jam in. Hopefully, you've been able to spend your time on some other topics while we walked through these ones. If you're feeling a bit stuck and need some study tips to make the most of your time, listen to Episodes 3 and 4 where we talked to Alex and Shane at Planning Certification and they had some valuable insight that could be of use.

Let's hop to it though.

Our topic today is really just one checklist item, but it's the basis for - and spins off to - like a dozen others. So, to say it's important in the foundation of planning really just doesn't do it any justice.

So, remember how we talked about how everyone in planning knows about Jacob Riis and his book, "How the Other Half Lives?" Yeah? Well, no one really seems to know or talk about Henry George and his 1879 book, "Progress and Poverty: An inquiry into the Cause of Industrial Depressions."

I mean after all, it's basically the ideological basis behind a single-tax system, land value values, the concept of basic income, and following the logic, just about everything else that spins off of those.

Hell, it sold more copies than any other book not called The Bible in the 1890's, and it was considered irrefutable by people like Winston Churchill and Tolstoy. So like, yeah; pretty important. This book is even sometimes credited as the start of the Progressive Era, sparking a worldwide period of social reform.

But enough of the hype train, let's start at the beginning.

(02:17)

So, Henry George. Where to begin?

Well, he was born to a lower-middle class family in Philly. His dad made a living publishing religious texts and wanted to send old Henry to a religious school, but he wasn't so fond of that.

Eventually, he finished what schooling he did do and took off as a sailor of all things and ended up in California where he got married and had some kids, and they were broke, like flat broke. The kind of broke where we went to beg for food and once he found someone that he was going to ask, he decided if the person he asked said "no," he was going to rob them. Apparently the guy gave him five bucks so, good on the stranger for that.

It's not like he was jobless though either, he worked as a printer for the San Francisco Times where he wrote an editorial called, "What the Railroads Will Bring Us."

Aside from making the accusation that railroads will only profit those with interests in the railroads, it also became a required reading in schools. So, he was obviously relatively successful; even working up the ranks to managing editor.

But financially speaking, he was still having a rough go.

(03:43)

I suppose you could say that it was that state of mind that allowed him to make a couple very important observations.

One, in trying to make conversation with some guy, he had asked what land was worth there. Apparently, the guy pointed off into the far away distance and said, "No idea, but some dude over there will sell you land for a thousand bucks an acre."

That experience, according to Henry George, because he recounted this, made him realize that poverty and wealth were related. That with an increase in population, the value of the land increases. But more importantly, it's the people who end up working the land who have to pay for it.

The second experience happened when he was visiting the big apple. Now remember, at this time, New York was an old city, at least in U.S. terms, and San Fran was much farther behind in the developed city game.

So with that in mind, he noticed that the poor in New York were much worse off than the poor people in California. It was that observation that really drove home the basic concept of his 1879 book, "Progress and Poverty."

So, what was this book all about?

Well, it's all in the title. "Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth; The Remedy."

And, shit that's a mouthful.

Basically, Henry George puts out the idea that it's actually advancements in technology and industry and society that creates abject poverty.

Now, he does a much better job explaining it, but it goes something like this. Advancements increase the desirability of a location, the increased desirability - as we ALL remember from economics class - leads to increased land values which subsequently means the amount of money that someone can get for leasing or selling the land to those who actually need to use it.

Compound this with speculators, and this phenomenon becomes even more exacerbated. It's like amplifying the effect by inserting a middle man; speculators being the middle man.

(05:58)

Think of it this way. As planners, we promote multi-modal transportation; as least we should be. So, hypothetically, let's say we support the development of a new rail line. I know, it doesn't happen often but bear with me; I want a crystal-clear example here.

This new rail line would put a residential area which is typically underserved within minutes of another neighborhood that has grocery stores and retail, easy shopping, entertainment; the whole kit and caboodle.

Now, according to Henry George's ideals, this rail line increases the social services available to this community which in-turn, raises the desirability of the neighborhood. This subsequently increases the inherent value of the land, which translates to higher prices. Which means, if you want to buy a home here? More money. You want to rent here? More money. You want to lease a space for your retail

business? Also, more money.

Now this is where the speculators come in. They see the opportunity to be slightly ahead of the curve and buy in at the moderately increased prices, and instead of selling, they buy up old buildings and convert them to retail spaces and apartments, and rent them out and even higher prices.

So, this “unearned value” of the land goes to those who could afford to buy it to begin with, i.e. wealth begets wealth, while those who couldn't are forced to pay more money than they originally did to be there, which creates more poverty.

The more you think about it, the more it kind of makes sense.

As we all know, and many, many, many articles have written; it's expensive to be poor. To give you the ultimate effects in his own words, here's a quote that I enjoyed from the introduction. “These new forces [meaning progress] do not act on society from underneath. Rather, it is as though an immense wedge is being driven through the middle. Those above it are elevated, but those below are crushed.”

(08:04)

It's important to note here that when I say advancements, I don't just mean in transportation or infrastructure. Advancements in manufacturing methods increase the demand for products which are manufactured at a location on land which drives the price.

I tried explaining this to some friends of mine when complaining about the idea that increases in land values are driving the cost of affordable housing. Land values don't drive housing prices, housing prices drive land values. Let me explain, and I'll try not to be too preachy.

If a particular property has an assumed land use - either through existing zoning, a comprehensive plan, speculative zoning, whatever - that land is priced accordingly. It's just that simple. If I own ten acres next to a subdivision with a quarter acre lots on it, and a road stubbed to my property, I can reasonably assume that my ten acres is - at some point - going to have about 30 homes on it; once you account for right-of-way and open space of course. This is a typical parcel in a typical suburb on the outskirts of a typical city.

Now those 30 homes, on average, in my typical suburb in a typical city around where I am might fetch between 300 and 400 thousand dollars, and I'll sell my ten acres at a price which reflects that.

Say I'm all utopian and sell my ten acres for a third of that value though because I want to see more affordable housing. Does that decrease the cost of the housing? Or is it reasonable to assume that the housing will stay the same price. Right, I'd pick the latter too.

Bringing that around full circle, advancements in manufacturing make manufacturing more profitable. More profitable manufacturing would make land for manufacturing more expensive, and so and so on. You get the point.

But, back to the book.

(10:06)

So, after presenting this hypothesis, he spends a little time debunking some popular ideas on what would reduce poverty before ultimately settling on his own hypothesis: A single tax on unearned land values.

His reasoning, at least, was two-fold.

One, the tax would provide an incentive to use the land in a productive way, since the value of the tax would be relative to the value of the land. More valuable land would be more expensive, and result in a more productive use which would increase labor. The need for increased labor would tip the power scales and result in higher wages, etc., etc., etc. As the land creates a bigger benefit, the value of the land is increased, and the cycle continues.

Ultimately, George said this tax could provide a basic income to all citizens. Ever heard of basic income? Well, that idea started with Progress and Poverty. He thought that the increasing values could create a surplus that would then be divided back out among the citizenry.

Know what else he said it would stop? Urban Sprawl, Homelessness, and low-value uses on high-valued land, and tenant farming, which yes, we still have today.

(11:30)

It's important to note here as well that we're talking about a single land tax on the economic rent, or unearned value, of the land only, not the improvements.

What is economic rent? How is that distinguished from rent? Economic rent is the difference between rent and the portion of rent which is required to care for the property. Basically, the profits from rent, and according to George, this is assessed based on the location alone.

In other words, and George points this out, a vacant city lot will generate the same taxes as a lot of the same size with a mansion on it. Factory or apartments? Doesn't matter, same tax value. The idea was that this tax would create a situation where the best use would emerge.

Anyways, this concept brought up by Henry George is sort of the first example we get of what we call 'value capture.' Value capture is really just the concept of the public trying to recoup some of the benefits seen by private landowners due to public improvements.

For example, let's say a developer comes in with a preliminary plan in an ordinary suburb to develop 1,000 homes on 500 acres; pretty typical considering roads, open space, etc.

The city then, turns around and says, "sure, it'll come with \$2,000 per home as an exaction fee." That fee is a method of value capture. You're trying to capture some of the value in order to maintain the public services: Roads, education, infrastructure, etc., etc., etc.

Other examples of value capture: TIFs (Tax Increment Financing), Special Improvement Districts, impact fees, land dedications, or public easements, etc., etc., etc.

More specifically to this case though, to Henry George, is the idea of the land value tax - a component of property tax - since property tax includes the improvement value on top of the land.

I should note as well, Henry George would have actually opposed taxing the improvements. He viewed those as a hindrance to progress. See, George wasn't opposed to progress. He just wanted to make sure that the benefits of progress were distributed equally so that the only judge of who succeeded and who failed, who was rich and who was poor, went to those who worked the hardest and applied themselves the most.

(14:09)

To quote Henry George again:

"Take now some hard headed business man who has no theories but knows how to make money. Say to him, 'Here is a little village. In ten years it will be a great city. In ten years the railroad will have taken the place of the stage coach, the electric light of the candle. It will abound with all the machinery and improvements that so enormously multiply the effective power of labor. Will in ten years interest be any higher? He will tell you NO! Will the wages of the common labor be any higher? No, the wages of common labor will not be any higher. What then will be any higher?"

Rent, the value of land. Go get yourself a piece of ground and hold possession. And if under such circumstances you take his advice, you need do nothing more. You may sit down and smoke your pipe. You may lie around like the lazzaroni of Naples or the leperos of Mexico.

You may go up in a balloon or down a hole in the ground and without doing one stroke of work, without

adding one iota of wealth to the community, in ten years you will be rich.

In the new city, you may have a luxurious mansion. But among its public buildings will be an almshouse."

(15:26)

So what did we learn today?

Well, Henry George's 1879 book, "Progress and Poverty."

In short, George puts forth the idea that it's progress that creates poverty, and that a single tax on the unearned value of land would be able to replace all other taxes in order to create progress which lifts everyone, not just the already wealthy while pushing down the poor.

Hopefully, it also gave you a little understanding into how this ends up becoming basically every economic development tool available.

Side note, if you haven't put it together. Henry George's book, "Progress and Poverty," was written in 1879; you know, the same year as the Tenement Housing Act of 1879 that tried making tenements livable but really created the dumbbell tenement.

Yes, abject poverty was kind of a thing; and frankly still is.

But just remember that the year that the Tenement Housing Act which arguably created the most horrible, impoverished housing in U.S. history happened in the same year – 1879 - that Henry George published a book on how to not have abject poverty.

(16:40)

And there you have it. That's the story of Henry George and his – frankly - history altering book, "Progress and Poverty."

If you want to know more about it, which I really do highly encourage, links to all of the information we used to put this episode together is in the show notes, or poke around on the internet yourself. The book is old enough you can find free copies online.

I don't recommend reading all of the books on the APA list, but this is seriously the foundation for more than you can possibly imagine, and frankly, still holds true today.

For those of you playing along at home, our question last week was, "What year was the first Old Law Tenement built?" And that would be 1879. If you didn't recall or got tripped up, which I hope you didn't, Old Law Tenements are the same thing as Dumbbell Tenements; two names for the same thing.

If you want to play along this week, our question is going to be, "What was Henry George's solution to the relationship between Progress and Poverty?"

Well, that does it for us. Thank you for tuning in. Go ahead and email me or send me a message through the website, Instagram or Facebook, whatever, with any questions, comments, or suggestions. I am not the best at responding in a timely manner, but I'll get on it; I promise. I have a day job too, you know.

Also, if you haven't already, go on and subscribe for this podcast on whatever platform your using for podcasts, or sign up on the show's website, so you can follow along with future episodes, help prepare for the exam and supplement all of your other study regimens, and be a peach and share this out with anyone you know who might be interested.

Shameless plug time. If you do think this podcast would be helpful for fellow planners taking the exam, make sure you share it out and leave a rating. You know, provide that planning benefit to drive a wedge underneath, and lift us all up.

Make sure you tune in next week. It's a little jam packed with the General Land Law Revision Act, the Forest Management Act, and the Sierra Club, and friend to environmentalists everywhere - John Muir.

Thanks again everyone, 'till next time.

Links:

https://en.wikipedia.org/wiki/Henry_George
https://en.wikipedia.org/wiki/Progress_and_Poverty
https://en.wikipedia.org/wiki/Value_capture
<https://en.wikipedia.org/wiki/Georgism>
http://www.wealthandwant.com/HG/PP/Katzenberger_synopsis.html
<https://www.britannica.com/topic/single-tax#ref201395>
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