THE REAL-ESTATE AND TRANSPORTATION COMPLEX

by Dr. William Batt, Albany, NY

Is there another identifiable "complex" of economic forces about to be labeled? I'd not be surprised.

It was the "military-industrial complex" that we first saw identified, now almost half a century ago when President Eisenhower spoke of its influence in his final address as president. "This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence -- economic, political, even spiritual -- is felt in every city, every State house, every office of the Federal government." It concerned him greatly. I've read that he'd originally also included Congress in his identification, but was persuaded to omit that link in his final wording.

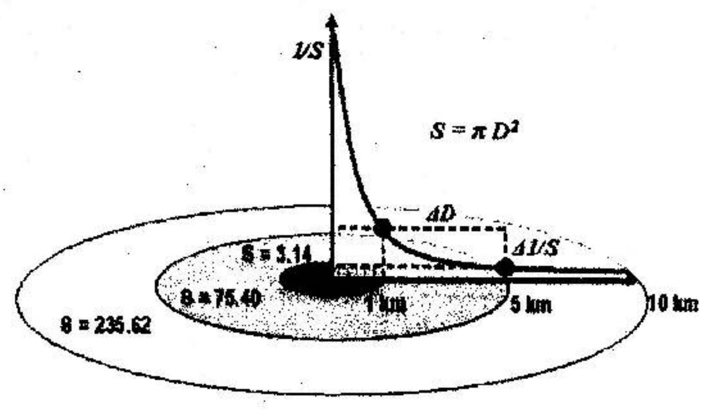
But it's not just this one confluence of economic forces. The December, 1998, Atlantic Magazine carried a disturbing article about the "Prison Industrial Complex," a coalition that includes not just prisons but all the associated law enforcement bodies in and out of government nationwide. We have over two million Americans in prison, one person out of every 140 residents. Law enforcement is very profitable.

Harpers Magazine writer Jonathan Kwitny recounted in a February, 1881 article, titled "The Great Transportation Conspiracy," on how, beginning in the mid 1930s, an alliance of General Motors, Standard Oil, Philips Petroleum, Mack trucks, Firestone Tire and Rubber and others joined to buy up major bus and trolley services in our cities, and then scrap them. "Though [their executives] were all convicted of antitrust violations for what they did, the token punishments they received -- a one dollar fine! -- scarcely marred the success of their venture."

We have also seen identified the food industry complex, the medical and insurance industry complex, and the media industry complex. But we have never recognized one alliance of American industries that has altered the course of our nation's economy as much as any. It is the land use complex, perhaps better understood after a bit of explication. I wrote an article about eight years ago talking about the triangle of land use, transportation and taxation -- see www.taxpolicy.com/batt.

One could argue that, as United States has become a "service economy," the combination of industries together classified by the acronym FIRE -- Finance, Insurance, and Real Estate -- have also come to wield political influence far beyond either their numerical strength or their share of GDP. The FIRE sector has maintained a disproportionate hold on America by successfully imposing its own political-economic paradigm on the public discourse. This has grown out of neoclassical economic thinking, but it is disintegrating before us, just as the FIRE sector reaches the apogee of its influence. This frame of thinking fails to deal with our rapidly changing empirical reality, so we have an opportunity to look anew at how our society and economy operates. We haven't yet seen the definitive identification of this quickly evolving configuration. As political and other forces rend it asunder, another is becoming evident.

But I keep coming back to the alliance between the real-estate and transportation industries which I believe together are perhaps the most powerful of all, and yet largely invisible to the general public. That's because it can't conceive of things any other way. The relationship between land values and transportation costs has long been apparent to adherents of Georgist philosophy. We alone "see the cat." It is easy to see that site rent and travel costs have a reciprocal relationship. Consider the land use configurations of any urban region, even those as distorted by artificial pricing as those in America. German geographer Heinrich von Thunen, who Wikipedia argues to be ranked with Marx for his acumen, constructed formulas measuring the relationship between land values and transportation costs. He was focused on the costs farmers bore to bring their goods to market. To be sure, our metropolises bear little conformity to the theories of Heinrich von Thunen two centuries ago, but we generally acknowledge that living "close in" means lower transportation costs than living out in the "boonies." We've subsidized transportation so much that the slope is far more gradual. But we still pay a price in higher land rent for living closer. Put simply, land rent is the reciprocal of transportation cost, and land rent can be viewed as capitalized transportation costs.



One 1998 study showed that for a household in which one worker drives downtown (or at least to a more central location) to work, a ten-mile difference may amount to 4,600 miles annually, assuming 230 days of commuting and a round-trip of 20 miles each day. Moreover, if non-work trips to the central area and elsewhere doubled that amount; the tradeoff would be just under 10,000 miles annually, not counting the time saved/spent. The American Automobile Association calculates now that a car driven 10,000 miles in 2007 cost 62.1 cents per mile, a figure that reflects only direct costs to the driver, not the additional costs passed on to society. Such are the savings for living closer to the urban center by ten miles. If the urban resident were to rely on a car nonetheless, subtracting some $3,000 annual travel expenses will still leave him paying that much again (and likely more) to own a car.

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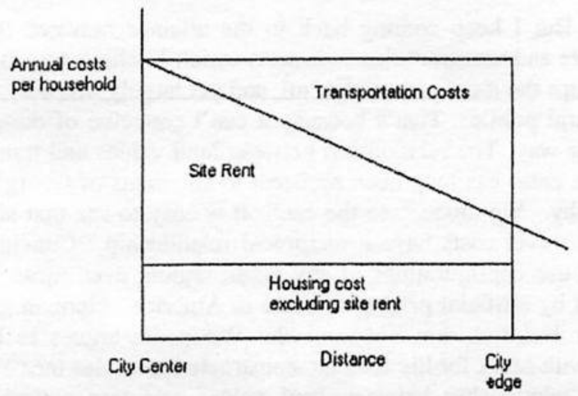
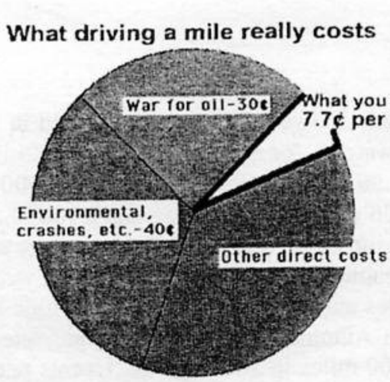
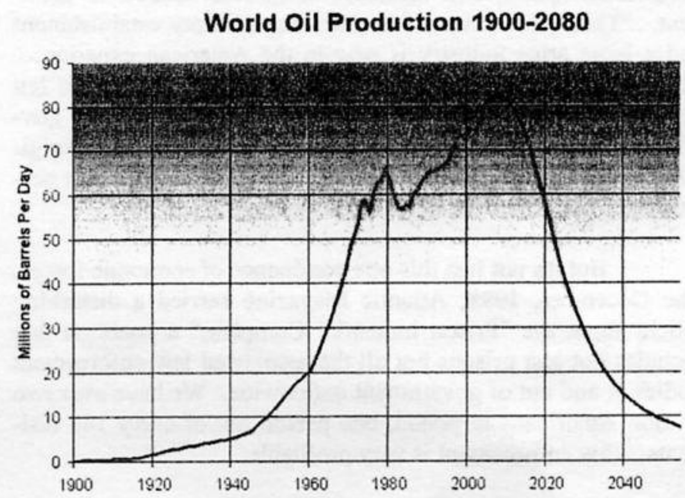


A 1993 Natural Resources Defense Council study calculated that the total costs of motor vehicle transportation to our society equal approximately a fourth of our gross domestic product (GDP). The increased price of oil and the cost of keeping the sea lanes open to bring it to us may have raised that a bit. Just the costs of automobile crashes represent a figure equal to 8 percent of the American GDP. Japan, by way of comparison, spends an estimated 10.4 percent to satisfy all its transportation requirements, although the figure might be a bit low because not all externalities are included in the calculation. Another study at about the same time concluded that road user fees were only about a tenth of the true costs to society; i.e., drivers pay less than 10 percent of the true costs of their motor vehicle use. The balance is paid by society, effectively subsidizing highway use by paying for all but the marginal out-of-pocket operating costs. Because we subsidize motor vehicle transportation so liberally, we not only foster congestion, we also build more pressure for continued highway expansion. And of course this undercuts the use of public transportation and fosters sprawl development.



With an administration in Washington now very sympathetic to oil interests, there has been a dearth of studies updating some of this data. But one would expect that the costs have grown exponentially. Another way to look at the significance of motor vehicle transportation in the US is by the number or percentage of employees. I've read or heard that one in six Americans earn their living in some way related to roads or cars. That means so many more people shuttling ourselves, or things, around that can't be employed in some more productive way. It means either longer work hours and less leisure time for us, or lower quality of life. To neoclassical economists who measure well being by the size of the GDP or per capita income, it matters not how efficient or inefficient our economy is. But as the "peak oil" crisis looms nearer and larger, such considerations will weigh more heavily.



Consider first the transportation side of the equation. The farther away we live from urban cores the more it costs to travel, not just in time but in cost, especially energy. Moreover, we've configured our metropolitan regions in a way that they almost have ceased to have an urban core – we often need to travel from suburb to suburb as we go downtown. Indeed, given the intractability of land use configurations – one doesn't easily alter infrastructure once it's put in place – we may be stuck with what we've imposed. Foolishly, we've created one class of land improvements for work and commerce, and another class for living space – linked with an expensive commuting network. What happens when transportation becomes still more expensive?

Now look at the structure for locational choices. Prices are one of the key determinates of our decisions, as they should be. But many of us live in remote areas because we can't afford to live downtown – we'd rather commute, because society is picking up much of the cost. Locations – in site rent -- aren't subsidized to equilibrate transportation. Even with subsidized commutes, the land value gradients from center to periphery are huge. I've been interested in portraying this using GIS to make land value scapes for a decade. For our CGO conference in DesMoines, I portrayed the difference in site values for Polk County.

How might it be possible to make the urban downtowns affordable so that we don't have that travel cost? How can we equilibrate the costs of the center and the periphery? The answer is easy: collect the site rent. Right now, we pay the travel costs as our needs arise, but we only pay the site rent – the capitalized site rent at that -- (continued on page 9)

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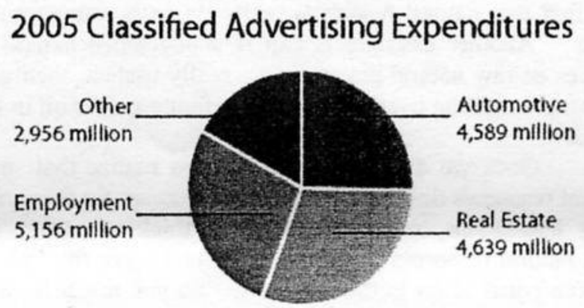
when we buy our homes. Ground rent is a flow every bit as much as is travel expense. Capturing both at the same time would equalize the burdens, making the costs competitive. Of course we would need to remove the public subsidies for travel so that the marginal costs were comparable. But that's doable: it involves capturing the site rent in taxes, and pricing travel for the commuter at its true cost.

But getting back to the real estate and transportation alliance, or complex if you will. The best way I know to show how dominant these sectors of the economy are in our lives is to look at their share of total newspaper advertising. For the most recent year available, 2005, the Real Estate industry expenditure on newspaper advertising was 26.8 percent. For the auto industry, it was another 26.5 percent. The only other significant share was for employment: 29.6 percent. (See www.naa.org/thesource/20.asp) We are seduced into spending an enormous amount of our budgets on cars and homes.



If a transformation of our economy is to occur, it is clear that these two industries are the ones that will be most threatened. The encouraging thought is that we can't continue on the path that we are on: change will be either by our collective choice or by forces beyond our control.

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HOUSING BUBBLE (from page 16)
based in Philadelphia, Pa. He is a graduate of Shippensburg and Temple Universities in Pennsylvania."

(Later that day, FT associate editor and chief economics commentator Martin Wolf posted this comment: "I have little to add to what Mr. Dodson says. There is a danger of a long slide in house prices in many countries, with associated freezing of the market. The full macroeconomic effects of this when households are so leveraged are unknown. But they are likely to be highly uncomfortable. Since this was a widely shared housing boom, we are obviously looking at a widely shared bust.") <<