INSIGHTS

THE RED AND THE BLUE

by Dr. Mason Gaffney, Riverside, CA

Pundits since November have noted an apparent anomaly: lower-income states voted red, and higher-income states voted blue. Within each state, lower-income counties voted red, and higher-income counties voted blue. In California, the inland counties went red, while coastal counties, plump with wealth and income, went blue. Depressed upstate New York went red, while rich New York City went blue.

On purely economic grounds, "it's a puzzlement." Why do poor people support the party of big corporations and the rich? Pro-reds say it's traditional good Americanism, character, old time religion, morality, family values, horse-sense, freedom from liberal education, and patriotism. Pro-blues say it's primitivism, gullibility, cultural backwardness, and superstition masquerading as religion. Marx, similarly frustrated in his day, explained it away by dismissing people like the red state voters as Lumpenproletariat - dummkopfs.

Before regressing into sub-adolescent cultural wars, though, there may be some economic causation here after all. We just need better economic analysis. Wendell Willkie wisely told us in 1940 that "A good catchword can set back analysis by fifty years." The catchword is an economic one: INCOME. It may have slipped by you in my second line. Willkie was too optimistic, though: his fifty years expired in 1990, with no discernable progress.

To understand the politics of New York City or San Francisco we need to begin by noting that they have about the highest residential rents and home prices in the U.S.A., along with the highest tenancy rates. It takes a high monetary income even to be poor in such places, unless you own land. Federal statisticians who publish the Consumer Price Index (CPI) delicately refrain from comparing different cities -- they just compare different times, city by city. This helps them finesse tough questions about rents, and housing prices. Common observation, however, and various semi-popular publications, fill the gap. The C.O.L., especially its rent and home value elements, is a lot higher in the big glamorous cities, so real incomes there are a lot lower than they look -- unless you own land.

The City of Los Angeles in early December, 2004, condemned an apartment building in "south central," the toughest slum area, to drive out violent gangs who make it their base and terrorize the neighborhood. Other tenants, ordinary people seeking shelter, protested. "Where else can I rent for $600," wailed one, clinging to a one-bedroom place with a "ratty carpet, broken tiles, and roaches."

"The People's Republic of Santa Monica," so-called by wags, has about the highest land values per square foot in the U.S.A. Its enviable location is hard to beat. It also has a high rate of tenancy, and a City Council swayed by organized tenants. Color it blue: the tenants vote.

High land prices also raise the credit requirement for owning a business. That screens out many who otherwise would have enough capital to enter or remain in business. It forces business owners to be tenants, and look at life and politics as renters, not owners.

It is not just average incomes per capita that define the economic position of most people in a state or city. The distribution of income and wealth makes a lot of difference. But wait again: IRS data, and other data derived from IRS sources, vastly misstate the concentration of real income because they omit the imputed income of owner-occupied housing. Thus, a salary-earner paying high rent in the Gold Coast of Chicago has the same reported income as one on the same salary on the same Gold Coast who owns his own million dollar house or coop or condo, and pays no rent. It's the renters who turn Chicago blue - along with most big cities.

It's not that the Democrats are much like Georgists. Campaigner John Kerry touted Federal aid for schools in order "to lower the burden of property taxes." That's been part of his Party's theme for decades. It's just that in spirit, said Party seems more sympathetic to the poor and dispossessed, who don't have much choice.

Several modern economists minimize the role of land prices in home values. Thomas Sowell, now a voguish columnist, was only recently a Professor of Economics at U.C.L.A. Sowell endorses Professors Edward L. Glaeser of Harvard and Joseph E. Gyourko of the Wharton School, whom he quotes as follows: "America is not facing a nationwide affordable housing crisis. --- In large areas of the country housing costs are quite close to the cost of new construction." These areas "represent the bulk of American housing" and they are areas where "land is quite cheap." I can't confirm the quote, but it reads like something Glaeser and Gyourko might have written: they also claim that the apparent price of land in Manhattan is only an illusion, the product of zoning laws. The true or "hedonic" price is not much above farmland. How do they figure that? Don't ask!

In a Brookings paper, housing authority Karl Case of Wellesley and financial prophet Robert Shiller of Yale write on housing. This is a hasty paper, not of the same quality as their previous work, but there it is under their names. They write that housing became more affordable from 1995 to 2003 "in the vast majority of states." Thus easily they dismiss the minority of states with the majority of the U.S. population and land values, and the highest ratio of land prices to building prices. Metropolitan New York, with 10% of the U.S. population, (continued on page 8)

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and a higher percentage of its land value, is a big chunk of the U.S.A. all by itself.

3,000 miles west, Deborah Reid of the Public Policy Institute of California delivers a parallel locution: "there is no housing shortage in California outside of Los Angeles, the Bay Area, and San Diego." Yes, and Switzerland is flat, except for The Alps. Is this a new conventional wisdom to help vitriolic columnists like Sowell ignore land values?

It worked before, why not try it again? Willford I. King, a renowned economic statistician, proved that land is equally distributed, using the following database: "... in a certain village with which I am familiar there are about a hundred families of somewhat equal wealth who all own their homes." Full stop. That sufficed for statistician King and the editors of the Chicago School house organ, the J. of Political Economy, in 1924. This mythical idyll was America, to King.

Professor Alvin Johnson of Cornell chimed in. According to him, the single tax is "a device for the spoliation of the middle class" (Atlantic Monthly, 1914, p.30) who own most of the land in small towns where real Americans live. "The Single Tax philosophy originated with a city man, ... a sound agriculture is based on ... The farmer, his ... love of the countryside, the jollity of the country picnic and dance, the fresh cheeked maidens who eagerly accept the role of sweethearts of country boys and develop into contented farmers' wives" (Johnson, 1927, in a book sponsored and endorsed by the American Economic Association which republished it as a classic in 1967.)

In 1927 the "city man" was Al Smith, who had sponsored the New York City tax exemption of new homes, 1921-31. That was one of the most striking and successful quasi-Georgist episodes in American history. Smith was as sympathetic to Georgism as any presidential candidate who ever ran seriously. Small town America cut him down.

Today, rural land monopoly has cut the number of American farms down below one million, about the population of Milwaukee, San Francisco, or Columbus. Small farm towns on the King idyll have shriveled and turned into labor camps, few of whom vote. To find places full of equal homeowners and fresh-cheeked maidens we now look to the cookie-cutter subdivisions. These are whither the "regular fellers" have fled, and what make the red states red.

"And the people in the boxes, send their children to the university, Where they all fit in little boxes, and they all come out the same."

The difference between tenants and owners is stark and obvious. There are also differences among owners. In poorer cities, the "skew" of home values is much less than in richer cities. "Skew" means inequality, and is measured in many ways. An easy way is the ratio of the mean home value to the median value: the higher the ratio, the greater the skew. In southern California, as we move from the red interior to the blue coast, the skew rises a lot, meaning the top values rise faster than the other values. Thus, in the blue counties there is a greater gap between tenants and homeowners; there are more tenants; and the homeowners are less equal to each other.

The blue counties report higher incomes per person than the red inland counties. You might think this would compensate for their higher home values, but you'd be wrong. Moving from red to blue, home values rise faster than incomes. The National Association of Realtors (NAR) and its state affiliates report "Affordability Indexes" for different cities. These indexes show what fraction of the residents can afford to buy the median-priced home. The higher the median income, the lower the Affordability Index. That is because home values rise faster than incomes The blue counties are those with lower affordability indexes.

The same pattern prevails among 50 states and the District of Columbia. Median income ranges from a low of \$36.3K in El Paso to a high of \$91.5K in Washington, D.C., a ratio of 2.5/1. Median home values range from a low of \$87K in Buffalo/Niagara Falls to a high of \$531K in the San Francisco Bay area, a ratio of 6.1/1. This is a general pattern: incomes vary a little among places; home prices vary a lot. Blue states and blue counties are generally those where land is out of reach of a high fraction of the people.

What that means for social psychology and voting patterns I leave to you. One thing is clear: "income" is a catchword that has obscured analysis for more than Willkie's fifty years. It is time we paid more attention to land values. <<

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