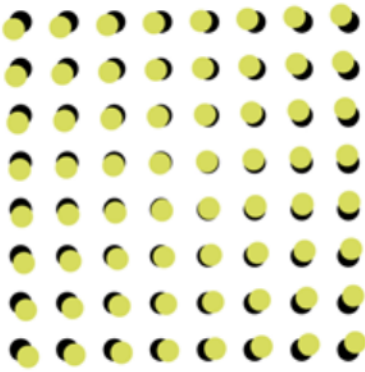


## Reconstructing Urban Economics

Towards a Political Economy of the Built Environment



Franklin Obeng-Odoom

**RECONSTRUCTING URBAN ECONOMICS:  
TOWARDS A POLITICAL ECONOMY  
OF THE BUILT ENVIRONMENT  
BY FRANKLIN OBENG-ODOOM**

*Reviewed by Edward J. Dodson*

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Here Franklin Obeng-Odoom sets his sights very high with this book. He seeks to establish rules of economic analysis descriptive of how we actually behave and how our systems of law and taxation reward or thwart particular behavior. His target audience is the community of experts whose work touches on urban economics. He observes that much of his own formal education failed to provide the framework required. The neoclassical economics he endured in the classroom had little to say about maximizing benefits to society. This was the same economics I studied as an undergraduate before entering into a career in banking as a real estate loan officer. This was the same economics I found of minimum value as I became involved in efforts to revitalize distressed city neighborhoods. The following sentence conveys the author's mission:

*Without reconstructing this urban economics as a basis for description and explanation to influence policy, the gulf between the academic orthodoxy and real-world conditions can only get worse [p. 4]*

Only after completing my own undergraduate work was I introduced some years later to a particular set of "non-neoclassical political economic theories and perspectives" that better explained the dynamics of our *have and have not* urban reality. It turns out that the author and I have travelled somewhat similar paths of discovery, though far from identical. As have I, he has come to embrace much of the analysis put forward by the American political economist Henry George in the late nineteenth century. Differently, he has endeavored to find within the Marxist analysis a new synthesis of compatible perspectives. As would any Marxist, he sees the problems of *labour* as a consequence of "its struggle with capital." [p. 9]

Henry George saw the struggle as a struggle with landlordism, one aspect of which was urban and industrial-landlordism. To the extent a struggle with capital existed, the cause was not the private ownership of capital goods as the means of production but of its concentrated, monopolistic ownership.

Political economy at one time functioned as an interdisciplinary social science. The author calls for a return to the study of the discipline as understood by Marx and George:

*A political economy which studies the economics of cities in its wider social, political, and ecological contexts offers a powerful approach to studying this complexity. [p. 18]*

Toward this end, it would have been informative for the author to provide a few pages on the reason why past generations of people migrated to and then settled in one place, setting the stage for the ultimate growth of villages into towns and towns into cities.

I explain the history thusly. With settlement arose the need for rules that allocated access to natural resources, rules that distinguished public from private property. For most of history, settled societies came under the control of increasingly oppressive hierarchical structures.

As political economists, both Marx and George observed that throughout history politics dictates economic outcomes, perhaps more so than what exploitation of the natural environment directed. Obeng-Odoom finds these perspectives integral to the work of institutionalists today (built on the methodology of the Swedish economist Gunnar Myrdal).

An important objective of this book is to find harmony between the most fundamentally-important insights of Marx, the Institutionalists and George as they apply to urban socio-political arrangements and the distribution of wealth and income. His reference to individual contributors to the study of "the built environment" is, in effect, a call for a break from orthodoxy to a new synthesis, one he has come to after intense investigation and now shares with others within the discipline.

In his overview of the essential elements in Henry George's system of political economy, Obeng-Odoom could have clarified that George's ideal system of allocating control over nature would be the process of competitive bidding to obtain a leasehold interest subject to periodically-adjusted rental charges. George accepted as a less-than-optimum solution the annual taxation of land deeded to private individuals or entities. Most important to George was that the rent of land (i.e., of all "natural opportunities") be societally-collected to pay for public goods and services.

In the chapter titled *The Urban Challenge*, Obeng-Odoom describes how mainstream analysts tend to look at cities based on their chosen specialized discipline. This leaves huge gaps in understanding, as "cities are continuously evolving, as are their functions and form." [p. 37] Institutional evolution, market forces and sometimes dramatic changes in the natural environment stimulate changing land uses. That is the history of all urban communities; the differences are, in my view, differences of degree rather than of kind. And, of course, some cities are relatively newly-formed; others have existed for several thousand years. There have always been migrations, often by people desperate to secure access to land and self-sufficiency or to escape oppression not directly related to the poverty caused by landlessness.

The fact that all around the world most migrations today are rural to urban is explained by a variety of causes. Not unexpectedly, land monopoly is not among the causes identified by mainstream analysts. On the other hand:

*Georgists [...] emphasize that the growing displacement arising from the privatization of land drives or at least escalates the migration process [p. 49]*

More accurately, Georgists point to the private appropriation of the rent of land rather than its private ownership as a cause of migration. Rural rack-renting drives peasants off the land into cities to face urban rack-renting landlords. Obeng-Odoom concludes “there is much evidence of how rising rent due to the commodification of urban, peri-urban, or rural land shifts populations around and pattern urban development in ways that see a concentration of wealth existing side-by-side with poverty.” [p. 53] No doubt the rise in land rents causes the displacement of lower income households exposed to market forces. However, as Henry George understood, it is the failure to publicly collect the rents that is the real problem.

Obeng-Odoom next moves on to discuss the analytical superiority of a synthesis of “Marxist, Georgist, postcolonial, and institutional analyses” [p. 80] in an attempt to explain why people settle, produce, consume, save and invest within the urban environment. It occurs to me that almost any approach that is interdisciplinary will prove more valuable to decision-makers than the general equilibrium model. A key reason is that the markets for locations in urban regions are not subject to the price mechanism as are the markets for labor, capital goods and (under certain conditions) credit. Absent the public capture of the full potential annual rental value of locations, a net imputed rental income stream to land owners is capitalized into selling price. Hoarding of and speculative investment in locations results. Under conditions of rapidly rising prices the supply curve for locations would be leftward leaning (i.e., the supply brought to the market is declining based on the expectation of ever-rising prices).

An important question is whether better analysis would result in better public policies and, therefore, more livable urban cities. Globalization has certainly changed the way cities are evolving. As Obeng-Odoom concludes, the impact on millions of people has been deterioration in their quality of life:

*[G]lobal cities have arisen because national borders pulled down by a coalition of institutions have enabled and sustained market forces that have unleashed a pattern of urban development that systematically marginalizes the majority of urban residents, or causes and sustains inferior and dependent urban industrialization... [p. 85]*

An equally-important (perhaps more important) externality is the growth of population. Once again, Obeng-Odoom finds mainstream urban economics void of sound analytical value. “Institutional arrangements” (e.g., laws that regulate what can be built where) powerfully affect market decisions. City officials eager for job-creating investment compete with other cities by offering such measures as tax abatements, variances to existing zoning or building codes, or even workforce training programs designed to meet the specific needs of potential employers.

Sound economic analysis depends, in part, on reliable statistics.

Where this level of information is scarce is where the so-called “informal economy” operates and where formal institutions are weak and often corrupt. The informal economy is also where participants evade taxes and regulations. On the whole, Obeng-Odoom finds, the evidence confirms that “most informal labourers have no choice,” as “they are compelled to work in informal economies because of structural reasons.” [p. 123] He also notes the continuing influence of Hernando De Soto’s call for formalization of property rights in the edge cities occupied informally by large numbers of the urban poor. He rejects this approach as well as the self-governance model, in favor of a neo-Marxist form of workplace democracy and housing provided by the public sector. This model sounds less like Marx and more like Proudhon’s mutualism. The basic idea is to foster a high degree of individual commitment and achievement within a cooperative institutional framework.

Measuring the extent to which poverty exists in an urban community is one type of challenge. Agreeing upon and implementing policies that hold out the promise of eliminating poverty is challenged by, among other things, ideological bias. Obeng-Odoom joins a long list of thoughtful analysts and social reformers (myself included) who have sought to keep the proposals of Henry George in the public dialogue. *Rentier privilege*, we argue, is the evil to be removed, the path to a full employment society, which is, in turn, the path to the removal of the plague of poverty. However, rather than *the State* generating inequality “because their material bases tend to operate in favour of those who gain from market processes,” [p. 158] George finds that inequality results from a systemic redistribution of income and wealth from producers to rentiers.

As Henry George took great pains to convey to readers of *Progress and Poverty*, the consistent use of terms is essential to the communication of ideas. Nowhere is this more important in the discussion of what is mistakenly referred to as housing. Where Obeng-Odoom writes about “[g]lopping housing prices” [p. 161] he should be writing about “residential property prices.” A housing unit is a depreciating asset the current value of which is easily calculated as replacement cost, less depreciation. When property prices are skyrocketing upward, the asset that is increasing in price is the underlying land parcel. He certainly understands this distinction. Unfortunately, Obeng-Odoom misinterprets Henry George on the solution to rising property prices. He writes:

*He [Henry George] argued that abolishing rent on bare land either by making land common property or by taxing it heavily is likely to reduce speculation, house prices (as land cost becomes zero or minimal), and hence the cost of accommodation. [p. 175]*

George looked to market forces to determine what the rent on bare land would be in any location. Even if the deed to land was held by the community, each parcel of land would offer a potential user specific location advantages yielding rent to be collected to pay for public goods and services. Of course, the members of a community could vote to forego collection of some (or even all) of the rent in order to make the location affordable under a leasehold arrangement to households with income insufficient to absorb the rental payment in addition to other living expenses. To prevent the capitalization of this land rent subsidy into a selling price for a leasehold interest in the location, a covenant of the deed would restrict resale of the housing unit based on appraised value or household income of the potential

purchasers. This is the essential structure of the community land trust. Other models, such as limited equity cooperatives, have successful urban track records. Inclusionary zoning offers a means of creating a mixed-income housing cluster with a percentage of the units set aside for permanent affordability.

Anyone who possesses a true concern for the urban environment and the surrounding countryside, has to be searching for solutions to sprawling development and the number of automobiles competing for space on the network of roads and highways that dominate the landscape. Obeng-Odoom is rightfully perplexed that “homo automobilus – the rise of the automobile as the emperor of urban transportation and its desirability – is defended in mainstream urban economics.” [p. 185] He expresses hope that an “activist campaign” will arise to “delegitimize automobility” in favor of “mass transit and bicycles, walking, and planning for people (not for profit) in the sense of building fewer roads, promoting collective and mixed use urban development ... and safe walking paths”. [p. 200] The hope, in my view, is for communities in which people can live, work and play independent of automobile usage.

Ultimately, what Obeng-Odoom and many of us are working to identify are best practices to achieve sustainable urban development. Again, he is led to Henry George for an effective challenge to orthodox theory by “returning land to common property.” [p. 220] That is, if the clock could be turned back, ownership of all land would be held by the community and (as I wrote above) offered to individuals and entities by competitive bidding for a leasehold interest. Again, the problem is the private appropriation of the rent of land rather than private ownership. Collecting the rent of land triggers sustainable economic development. A basic understanding of the Ricardo-George *law of rent* explains why.

Every parcel or tract of land has some potential annual rental value. A potential user will bid for control of the location based on an expectation of the revenue to be generated by whatever activity in which the user undertakes. Restrictions on this activity imposed by the community impose costs on the user; thus, in order to protect desired and expected profit margins the user will enter a lower rent bid than if no or fewer restrictions are imposed. For the community, the decision to impose restrictions to achieve, for example, a zero pollution outcome will tend to yield a lower rental charge than if some pollution was accepted (although the higher rental revenue obtained would provide funds for environmental remediation). However, one would expect to experience longer-run positive externalities associated with a pollution-free environment. Rent yields could rise significantly as the area becomes attractive to zero-polluting producers, service providers and residential occupants.

Obeng-Odoom misreads Henry George on the role that rent plays in the decision-making process by potential producers. The last thing Henry George wanted to see would be the elimination of rent from the economy. The taxation of rent does not eliminate rent, it merely redirects rent to the community to pay for public goods and services. By eliminating the potential to profit by speculation in land, the supply of locations brought to the market in competition with one another would tend to bring down rental values, at least until population growth increased the competition for well-situated locations.

In the end, what the author attempts is a resurrection of political economy as an interdisciplinary method of analysis and investigation. The book may be read, even discussed, by members of the individual disciplines to whom the book is directed. Will his message serve to bring together those who have come to question the orthodox teachings of their mentors? Others have tried. Back in 1970, Dick Netzer (a Professor of Economics and Dean of New York University’s School of Public Administration)

offered the book *Economic and Urban Problems: Diagnoses and Prescriptions* as an equally-ambitious entry to the argument on behalf of interdisciplinary analysis. Four decades ago he wrote:

*Perhaps the most frequently overlooked and most insistently urged analytical argument of the book is this: existing institutions and policies have negative, as well as positive, economic effects on the resolution of urban problems. The mitigation of the harmful effects, by revising existing institutions, may be more important than any conceivable combination of glamorous and wholly new institutions, policies, and mechanisms. ... Societies with economic arrangements that, while paying serious attention to environmental difficulties, make likely the achievement of universal affluence within another generation must be doing something right.*

Professor Netzer had challenged conventional wisdom. His book was positively reviewed and may have sold well. Back in 2004, a collection of essays with the title *City Taxes, City Spending* was published in his honor. The editor, Amy Ellen Schwartz, wrote of Netzer:

*His research and writing clearly reflect the lessons learned and insights gained from practical applications to problems facing cities. His public service clearly reflects the expertise and analytic acumen honed in scholarly research and engagement. In this, he is a role model for subsequent generations of public finance and urban economists seeking to balance academic inquiry and research with public service and practice.*

The fact that Professor Netzer’s work escaped the attention of Franklin Obeng-Odoom is not surprising. But, it is an unfortunate indication of the great difficulty of building a sustained challenge to conventional wisdom. 📌

## BOOKS WORTH READING

For those interested in the relationship between jurisprudence and ecology a worthwhile read is *The Ecology of Law: Toward a Legal System in Tune with Nature and Community* by Fritjof Capra and Ugo Mattei (Berrett-Koehler, 2015). The authors argue that with the modern advances of ecological science the world can no longer be understood as a vast machine, but rather as an interconnecting network of living forms. But, they write, our “laws and legal system are still mired in the outdated mechanistic paradigm”. The book traces how modern law theory arose out of the scientific revolution of the sixteenth and seventeenth centuries, championed by Francis Bacon, Rene Descartes and John Lock. “In jurisprudence, the rationalist, mechanistic paradigm, developed by . . . jurists like Hugo Grotius and Jean Domat, views reality as an aggregate of discrete definable components, owners whose individual rights are protected by the state. Indeed, ownership and state-sovereignty, respectively, championed by John Locke and Thomas Hobbes, are the two organising principles of legal modernity” they observe in the introduction.

The subsequent argument of the book is to show how our new understanding of nature may inform our conception of law and align it with living in tune with nature. In Chapter 8 they argue that law belongs to community and ought not to be a system imposed from outside. There is detailed discussion of how the laws on property may be transformed by forms of common ownership or sharing, as well as a new recognition of commons. The main thrust of the proposed revision of law is that it be liberated from its focus on isolated property owning individuals and reoriented towards community and the interconnections within community, and the integration of community with the living environment.

Some of the suggestions may be impractical, nevertheless the book demonstrates beautifully that our modern theories of economics are bound up with outdated mechanistic conceptions of science and of law, and that economics and jurisprudence both need revising if justice and ecology are to converge. 📌