the Illinois Georgist

Summer 2002 ♦ Volume 13, Number 3

Reminding ourselves that land is important

In Skokie, says the Chicago *Tribune* (May 8, 2002, section 9, page 17), the average house and lot sold through the Multiple Listing Service (MLS) in 2000 cost $248,404. But vacant lots— usually containing small, older teardown houses— go for $350,000.

Of course the pricey vacant lots tend to be in the more expensive parts of town. But Skokie, diverse in some respects, doesn't have any rotting gang-infested slums. Quality of life is pretty good throughout the Village.

And real estate prices have increased since 2000— a May, 2002 check of MLS house listings through the *Tribune*'s web site shows a median asking price of $319,000.

Still, it seems that, in Skokie, more than half of the typical price for a house and lot is not for the house, but for the lot. And Skokie is hardly the only community where this is true.

Households with modest incomes can't afford to buy houses in Skokie. Could this have anything to do with the cost of land?

Meanwhile, in Chicago, the Latin School is paying $8.3 million— $369 per square foot— for a lot adjacent to its Gold Coast campus. They'll recoup part of the cost by selling a parking lot they own a block away. Can anybody say that location doesn't matter?

The importance of land in the economy is no secret, and in fact is reported regularly in the press. One need only notice it.

Alumni welcome too

Summer Term Schedule

Our introductory *Progress & Poverty* course will equip you to understand many of today's major social and economic problems:

- **Why so few jobs pay enough to support a family**
- **Why so many jobs don't even pay enough for one person to live on**
- **Who really benefits from successful "economic development" and "anti-poverty" programs**
- **Why even in prosperous times millions can't find jobs**
- **Why some nations seem perpetually impoverished**
- **A proposed solution to these and many other difficulties**

You'll never look at the news in quite the same way after you understand the principles taught in *Progress & Poverty.*

Due to summer vacations some of our regular instructors will not be teaching. You'll need to wait until fall for the relaxed version of *P&P*. But the accelerated version will be somewhat relaxed, taught in seven sessions rather than the usual six.

Henry George School (Chicago) Summer 2002 Course Schedule

#	Course	(Version)	Day & Time	Start	End	Sessions	Instructor
Classes at the Henry George School, 417 S. Dearborn #510, Chicago							
1	Applied Economics	ADVANCED	Wed 6:30 PM	Jun 12	Aug 14	10*	Chuck Metalitz
2	Progress and Poverty	ACCELERATED	Tue 6:30 PM	Jun 25	Aug 06	7	Chuck Metalitz
North Side Class in Ravenswood (near Damen and Lawrence Avenues)							
3	Progress and Poverty	STANDARD	Thu 7:30 PM	Jun 06	Aug 08	9**	Chuck Metalitz
West Side Class in Oak Park (near Lake St and Oak Park Av)							
4	Progress and Poverty	STANDARD	Mo 7:30 PM	Jun 10	Aug 05	9	Bob/Ruth Kennedy

All class sessions are scheduled to last 90 minutes. All classes are open to all interested adults, except that the ADVANCED class (Section #1) requires prior completion of Progress and Poverty(any version).
For course and version descriptions, see the School Catalog, available by calling 312/362-9302

* **Section 1 will not meet on July 3; double session July 10**

** **Section 3 will not meet on July 4.**

To register, use the reply form on page 3.

Letters

Broadcast Spectrum

Our winter 2001 issue reported on the demise of radio station WNIB, relating this to the problem of speculation in broadcast licenses. An expanded analysis, looking at the major radio broadcasting companies, was published as *Henry George School Research Note #4* last year.

I have several problems with the article. First, whether you liked the format of the station or not is not a matter of interest to public policy. Likewise, how much value the buyer of a radio station or frequency assigns each current or potential listener is a matter for the markets to determine.

But more important in my mind is the idea that these pieces of spectrum do not have a value outside of that created by the public. Therefore, as a Georgist, I feel that the public should charge rent for spectrum, and in a city like Chicago, the rental value will be very high. I think there should be spectrum auctions with the winner enjoying possession for a period of five years or so. Then that piece of spectrum goes back on the auction block.

If that happened, I would not be in favor of restricting some of the spectrum to certain politically connected groups or players at a lower auction price.

The outcome would probably be that only well-capitalized bidders would emerge as winners. Since the prices would probably be quite high, the winners would seek to maximize the productivity of their spectrum.

Now I don't watch MTV and I don't listen to heavy metal, but I'm sure the purveyors of those economic goods have a commercial following that makes my preferences largely irrelevant. And my "All Georgism, All the Time" station has yet to appear. I don't consider either of these items examples of the failure of markets. We cause markets to fail by clinging to the remnants of our privilege dispensing system instead of one driven by markets.

We haven't gotten to a free market in spectrum yet — but we are moving closer. I think that Georgists should encourage this move, not harken back to the days of privilege.

- John L. Kelly
Peoria, IL

The Editor responds:

We agree on the main points: Just public policy would lease spectrum space for limited time periods, with prices based on market value and the proceeds going for public benefit. However,

— I believe removal of potential speculative profits will lower the cost of spectrum space, since the speculators would no longer participate in the market. This would make channels somewhat more affordable.

— I prefer a competent appraisal to an auction, because the current user of the frequency has sunk a certain amount of investment into promoting their particular channel.

— cm

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At this writing, there are 366 vendors participating, including such major dot-com's as Office Depot, Amazon, Lands' End, WalMart, Barnes & Noble, Eddie Bauer, Gateway and Dell. Most donate between 2 and 5 percent of the purchase price. The Igive.com site clearly explains the details, including how, even though the donation costs you nothing, it can result a deduction from your income tax if you itemize. Just in case you needed more evidence that nobody understands the income tax.

Thanks to our Contributors

Since our last issue, donations have been received from the following supporters.

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__ **Progress & Poverty** (specify section number ________)

__ **Applied Economics** (section #1—you must have taken Progress & Poverty previously)

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Mail this form to: Henry George School, 417 S. Dearborn #510, Chicago IL 60605 or fax it to 312/362-9303 with your name & address. If you register for a course you will receive confirmation by telephone or mail.

Transit from page 4

Note that precious little RTA operating revenue comes from the downtown area itself and precious little from anything remotely resembling a land value tax, and those only and indirectly from general revenues for state matching fund and a minuscule $3 million annual City subsidy for CTA.

If we figure the system is at least twice as big and expensive as it would be without a downtown rush hour, we can figure downtown land owners are getting an annual transit subsidy to the tune of $325 million, downtown itself, $300 million.

From a Georgist standpoint, of course, this is completely, utterly outrageous. In this sadly, overwhelmingly, non-Georgist world, however, something more is needed to get anything done. Something more is readily available nevertheless.

At that same seminar, I told Kreusi that various neighborhoods around town could give presentations on years without CTA. In fact, a group from Pilsen did just that at the CTA budget hearing the previous November, as did another from Lake and Homan at the RTA hearing in December. For the past decade CTA has nickel-dimed the neighborhood off-peak service to death every time it had a cash pinch. CTA expected to save $25 million on the last cuts, but later admitted to less than half of that. This, I said, is the worst way to save money on a transit system, because, once the rush hour is paid for, the off-peak is almost a free ride.

Kreusi answered that CTA's off-peak ridership is up and that the marginal cost of off-peak service is very little. He did not say anything, however, about restoring the cuts. He has yet to dispute me when I repeated this at the 2000 and 2001 CTA budget hearings, in his presence and that of the entire CTA board.

In other words, once you pay for the bus and driver, you might as well get more than an hour in the morning, an hour in the evening, ten hours a week.

The CTA service cuts of the past decade are still a very sore issue in many underserved neighborhoods. CTA funding arrangements are a sore issue too, but still, however, largely confined to yours truly. They ought to be a sore issue not only to the neighborhoods, but to Georgists too, one with a practical payoff if pushed hard enough.

Is there any good reason why neighborhood shopping should subsidize the downtown office industry? Or landowners? Why should Granny get nailed 1% sales tax, every time she buys a quart of milk or a new babushka, to subsidize well paid downtown commuters? Or landowners? If she can get to the store in the first place?

The simple answer, I think, is to amend the law to forbid CTA from using general sales tax revenues for any level of service less than 100 hours a week, in other words, the "base" or off-peak service needed in the neighborhoods and for shopping. The complex, amorphous geographic issue translates to a simple, easily defined issue of time, for the purpose of limiting CTA's long-standing abuse of discretion.

If downtown really needs an expensive, concentrated rush hour, let that great "economic engine" pick up its own tab. The downtown moguls put together special downtown taxing districts for local shares of the Franklin and Monroe subway projects (1970) and the downtown trolley (1990).

They can put together another one for their own precious rush hour too, for whatever they consider economically viable. Let them sort out whether to impose its costs on the $10 billion Equalized Assessed Value of the downtown, its 120 million sq. ft. of office space, or its 500,000 some employees, if only as impact fees, if not as true land value capture.

An ideal Georgist solution? Far from it. It is, nevertheless, a simple, doable, practical application of Georgist principle. Not that the non-Georgist RTA sales tax would be immediately repealed, but the proposed amendment would roughly double the funding for off-peak service, assuming the base service is half the rush service, much more if we consider the off-peak a minor by-product expense of the rush.

By some strange coincidence, this is exactly the frequent, convenient, neighborhood, off-peak service that retailers and shoppers need. It is, ironically, the sort of service CTA would run if it had any idea what side its bread is buttered on, if indeed it were a service organization seeking to enhance its funding by sales tax.

And it just might break the ice for further application of Georgist principle.

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Should downtown landowners pay for transit?

A Foot-in-the-door for Quasi-Georgist CTA Funding

There is a very definite connection between public transportation and the functioning of a concentrated downtown office and retail district. It was well understood eight and ten decades ago, judging by civic battles then over finance of subways and elevateds. This we can well understand today from Robert Fogelson's recent *Downtown: Its Rise and Fall, 1880-1950,* including the exploits of Chicago's own premier downtown opponent, the amazingly intrepid but now, tragically, largely forgotten Tomaz Deuther.

It was well understood in 1981 when the RTA collapsed and the downtown crowd went to Springfield for a financial rescue, amidst dire estimates of the local economy losing some $150 million a day if transit service ceased.

It was well understood at a day-long transportation seminar on February 29, 2000, when CTA president Frank Kreusi gave a presentation entitled, "A Day Without CTA." His point was, in short, that if all the downtown CTA riders drove their own cars instead, they would need a parking garage that would use just about all the area inside the Loop. In recent decades, it is well understood in downtown circles, some 80% of the people arriving in downtown proper do so on public transportation.

Mass transit, thus, performs much the same function for a concentrated downtown that an elevator does for a building above four floors or so. It is a specialized service that makes a specialized function possible. If buildings pay for their own elevators as a normal business expense, why shouldn't the downtown cover the costs of its concentrated rush hour, the major expense of a transit system?

From a Georgist perspective, why shouldn't the owners of extraordinarily valuable land at least cover the costs of maintaining that value? Do they?

How well, then, did the downtown moguls do in Springfield in 1981, when the present arrangements for RTA operating funds were made?

Swimmingly well, indeed. They got a 1% sales tax in Cook County, 1/4% in the collar counties, to fund RTA operations. 15% of these revenues are distributed at RTA discretion, the other 85% by a statutory formula, with a state matching fund. In the City, these revenues go to CTA. In suburban Cook County, 55% goes to Metra, 30% to CTA, 15% to PACE. In the collar counties, 70% goes to Metra, 30% to PACE. Of the RTA's discretionary 15% over the years, almost all has gone to CTA.

The RTA annual report shows sales tax collections over the past ten years or so. Recent figures show about $180 million revenues from the City, $324 from suburban Cook County, and $66 million from the collar counties. With some state matching funds and miscellaneous revenues, the total annual RTA subsidy comes to some $650 million, about $180 million to Metra and about $400 million just to CTA.

Swimmingly well, indeed, even if downtown boosters boast of paying a whole 10% or 13% of the city sales tax revenues. 13% of $180 million comes to an annual downtown contribution of $24 million. Not bad at all, when one figures that the downtown rush hour requires a service level two or three times the maximum off-peak or "base" level of service.

see Transit page 3

Inside...

Summer 2002 Schedule

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