

The Progress Report

Fred Foldvary's Editorial

Gentrification



by Fred E. Foldvary, Senior Editor

The "gentry" in Great Britain are the class of people with property and high social standing just below the nobility. From that we get the term to "gentrify" meaning to change a run-down area of a city into an improved state by repairing and remodeling the houses and yards. As more affluent people move in, rents rise and the poor folk get evicted.

Some social activists decry and deplore this squeeze on the poor, so they advocate limits on gentrification. But if demand for sites in an area is growing, the economic pressure is for the rent to rise. Policy then typically responds with measures to treat the effects: rent control, living wage, subsidies to tenants. Rent control fails to distinguish the rent of land from the rental return to investments in capital goods such as the building, furniture, and maintenance, and buildings often deteriorate, making the slum worse.

The reason this is happening is because policy distorts incomes and incentives. Worker wages are artificially depressed by taxes on their income and sales, while land values are pumped up by spending on civic works not paid for by the landowners. The incentive in a growing economy is to obtain real estate, improve it, and sell it later at a vastly higher price. Such improvements would be socially good in a pure market, but today much of the speculative gain is instead caused by government works that increase the rent.

The effective remedy is to fundamentally change the policy. Shift public revenue sources from wages to land rent, excluding the rental return to improvements. That would raise wages and at the same time lower land costs, making it more affordable for lower- income people to rent or own housing, without subsidies. Then gentrification would be good for all, since it improves housing as well as the character of a neighborhood. Gentrification would take place as housing for current use, not for speculative gains due to infrastructure paid for by taxes on labor.

So long as this shift does not take place, should gentrification be stifled? As a general rule, when in doubt, do not intervene. Leave the market alone, even if it is distorted by intervention. If policy must help the poor, the best way to do it is with direct subsidies rather than with controls and limits on what residents and enterprises want to do.

The problem with any aid to the poor is that the landlords might soak much of it up. That's the theory of all-devouring rent. Winston Churchill told the history of what happened in London when a bridge toll was eliminated. Poor workers were crossing the bridge to go to work. The city council wanted to help the poor by eliminating the toll. But soon, the rents the poor had to pay went up by the amount the toll was reduced. The whole benefit went to the landlords.

So subsidies to the poor to enable them to pay rent may just increase the rent some more, leaving them little better off. Limits on gentrification may have the same result - it decreases the supply of new housing, and rents rise because the increasing demand hits an artificially limited supply of housing.

There is just no getting around that any bandaid policy will be ineffective when the underlying problem is the upside down fiscal policy of taking the bread from the mouth of the worker in order to subsidize the gains to the landlord. Policy will be dysfunctional until it confronts the reality of the wage and rent relationship. Wages go down and rents go up as production moves to less productive areas, as it ever must.

Only by using the land rent for public revenue can the problem of poverty be remedied. That's what the economist and social reformer Henry George discovered over 100 years ago, written up in his work *Progress and Poverty*. Powerful economic forces keep this remedy from taking place and even from public dialogue and even worse from being adequately explained in conventional economic texts (see the book *The Corruption of Economics*).

Only when the public becomes aware of the rent/wages economic relationship will there be mass pressure to change the system. Then gentrification will be recognized as a blessing to all rather than a curse to the poor and a problem for policy.

-- Fred Foldvary

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