

A Composition of Fallacy

This article is part of a series on incremental growth. Here's what's been covered so far:

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The ongoing [series I've been doing on incremental development](#), and the [re-posting of the series I wrote last year on Portland's housing emergency](#), has brought the critics out -- friend and antagonist alike -- to attack my simple ways. *Chuck, you're usually so smart but you just don't get these fast growing cities.*

That is true, at least the latter half: I don't get these fast growing cities. They don't make any sense to me. Buried beneath the rent controls, inclusionary zoning mandates, luxury condos, billion dollar build-it-and-they-will-come transportation investments, subsidized parking and the like, it's impossible to figure out what distortion is causing what to happen. I find the simple narratives put forth to be lacking (and very convenient as they each generally support the worldview of those making that case).

And amid this strange soup of imbalance, when I hear intelligent people put forth their own simplistic analysis and silver-bullet solution, I'm even more confused. Cities are complex, adaptable systems that defy linear input/output modeling. Anyone who suggests they have "the answer" to Portland's housing emergency -- or that of San Francisco, Austin, Washington DC, Boston or any similar situation -- is either a charlatan or a fool.

For me it is like a sick patient who is taking a couple dozen serious medications. In the complex, adaptive system that is a unique human body, how do all of these different interventions react and interact to make the underlying problems better or worse? How do those underlying problems manifest as symptoms, the pain that tells us something isn't working? Nassim Taleb, the Patron Saint of Strong Towns

Thinking, suggests an approach to discovering the answer that he calls *Via Negativa*.

Through *Via Negativa*, we get closer to understanding the uncertainty of complex systems by removing distorting interventions. As he states, we reduce the "branching chains of unintended consequences" which we don't even understand (though, again, charlatans and fools may think they do -- and they'll even use data to "prove" their hunch). My fixation on incremental, and my [extensive writing on Portland's housing emergency](#), are not about giving a solution. They are about getting us to a system that produces a solution.

So, when our friend [Joe Cortright](#), writes:

Our good friend at Strong Towns, Chuck Marohn is utterly right about a great many things. But he's committed a classic [Kotkinesque](#) blunder when it comes to evaluating the connection between density and home prices. His theory is that higher density makes housing more expensive.

...he's not only misstating what I've said, he's ascribing a theory to something I've not even theorized. Again, this is my core problem with the entire housing conversation our "experts" are having. That conversation attempts to reduce everything to "___[fill in the blank]___ causes housing to be more expensive and therefore all we need to do to make housing affordable is ___[fill in the blank]___."

Let me show you. Just choose your favorite; there's one for every ideology to cling to:

- A limited supply of units causes housing to be more expensive and therefore all we need to do to make housing affordable is build more units.
- Zoning causes housing to be more expensive and therefore all we need to do to make housing affordable is repeal zoning codes.
- NIMBYs cause housing to be more expensive and therefore all we need to do to make housing affordable is ram things through over their objections.
- Greedy landlords cause housing to be more expensive and therefore all we need to do to make housing affordable is force landlords to sell/rent housing units at lower prices than what they could otherwise get in the marketplace.
- Government bureaucrats and red tape cause housing to be more expensive and therefore all we need to do to make housing affordable is speed up approvals.
- Speculators cause housing to be more expensive and therefore all we need to do to make housing affordable is punish rent seekers with punitive taxes.
- Luxury condo units cause housing to be more expensive and therefore all we need to do to make housing affordable is require developers to build non-luxury units and sell them at a loss.

- The Urban Growth Boundary causes housing to be more expensive and therefore all we need to do to make housing affordable is remove the Urban Growth Boundary.
- Dramatic upzonings around major government transportation investments raise land prices and cause housing to be more expensive and therefore all we need to do to make housing affordable is downzone these areas and take an even greater loss on these investments.
- Federal Reserve policy of buying mortgage backed securities causes housing to be more expensive and therefore all we need to do to make housing affordable is close the Federal Reserve, or at least restrict their purchasing of assets.
- Etc...

So which one of these is it? Let me state this clearly: I don't know. Neither do you. I personally believe it's likely that each of them has some validity, the total impact of which fluctuates and changes from parcel to parcel, neighborhood to neighborhood, month to month the way things do in a complex system where individual actors are generally free to receive feedback and take action independently of others.



Photo by Johnny Sanphillippo

The great thing is, there's this really amazing system for figuring it out. It's called: price. Prices, when they are allowed to find their own equilibrium (more on that in a bit), are an amazingly powerful signal. They signal to people whether now is a good time to buy. Or a good time to sell. They signal whether now is a good time to build. Or a bad time. They signal the type and quantity of housing unit in demand. And they signal when enough have been built.

Prices are not perfect. They fluctuate, sometimes dramatically. Sometimes they are much higher than what is warranted. Sometimes they are far lower. These are opportunities for people to buy and sell, to invest and divest, the acts of which impact price and bring it closer to a true equilibrium. In short: prices are feedback. When individuals in the system don't get accurate feedback, things get way out of whack.

For example, let's assume for a bit that a combination of speculation, capital flows, regulatory burden and greed have pushed housing prices in Portland 20% above what the market can actually support over the long term. That artificially elevated price will signal demand to investors and developers and they will respond by building more. This will raise the cost of materials and labor, the latter of which will pull workers from other sectors, increasing wages across the board. This shortage of workers could potentially depress other sectors in the local economy causing jobs to locate elsewhere. The artificially high tax receipts from the elevated housing values induces the local government to take on more debt and invest in additional growth opportunities. And on and on....all the things we see in a boom market.

So what happens when prices fall, when that artificial 20% evaporates -- it wasn't financially sustainable over the long term and so a correction is inevitable -- and prices drop? That's feedback and we'd expect that builders would stop or slow building, demand for labor would fall, people would lose their jobs, government revenues would be pinched..... All the things we see in a recession.



Photo by Johnny Sanphillippo

Here's the trick: we're not trying to have a boom or a bust. We don't want an artificial high because we don't want the painful hangover that comes with a correction. What we want is for prices to work, for those signals to effect supply and demand in a far more fluid and dynamic way so that things don't get so far out of whack. We want our pain in small, continuous doses instead of no pain followed by catastrophe failure (which, if I can inject morals into this conversation, is a terrible approach for the most fragile and vulnerable among us. They get sidelined on the way up and trampled on the way down.)

When I look at cities like Portland and Austin, the Bay Area and the major cities of the Northeast, and I ponder *Via Negativa* -- the ways we remove those distorting influences and the branching chain of unintended consequences that result -- I find myself returning to three central strategies. Contrary to what [Cortright and others have suggested](#), they are a package set of actions -- not individual silver-bullets -- designed, not to solve the housing problem, but to bring us closer to a situation where price signals provide accurate feedback so a set of solutions emerge. They are:

1. Provide, by right, the ability of every property in the entire city to be improved to the next level of intensity. If people want to call this upzoning, I'm fine with that description.
2. In places where dramatic leaps in development intensity have been codified, downzone to allow only the next level of intensity.

3. Halt the expansion of all infrastructure systems that are meant to support additional development until such time (likely never) that the tax base is sufficient to cover the ongoing maintenance and replacement of all existing infrastructure systems.



I've had this image in my mind of a person adrift at sea, flailing around trying desperately to discover solid ground upon which they can anchor themselves. Without solid ground -- without an anchoring in accurate prices and real feedback -- we're just adrift. Any policy prescription is simply going to add to that chain of unintended consequences, regardless of our intentions. My suggestions are a way for us to find solid ground, a stable equilibrium where we can confidently start building incrementally again, only this time with consistent and accurate feedback driving our actions.

I want to add one final thought: Strong Towns has a very ideologically diverse audience. I'm proud of that, but I also understand that there are quite a few of you reading this that see the word "market" and can't help but apply your partisan prism. Understand, I'm not a free market ideologue. I don't pretend that our current system of debt-fueled, corporate-led capitalism is either just or representative of what its proponents like to suggest is a "free market" approach.

I don't embrace market feedback because I embrace modern capitalism; I embrace markets because I believe empowered individuals, given good information and free

will to act, will collectively make decisions that are -- over time -- generally good and just. There will be exceptions, of course, but our decisions will be stronger if we all have the feedback that accurate price signals provide.

Let's stop pretending we know the simple antidote to the painful symptoms our housing prices are expressing and instead humble ourselves to admit that we don't understand all the complexity, that it is beyond us to grasp the chain of unintended consequences our prior actions have created. If we do that, we can embrace an approach that gives us more accurate feedback, one that allows solutions to emerge through our collective action. That's how we build truly Strong Towns.