CHAPTER III.

OF MONOPOLY AND FRANCHISE VALUES.

I do not recognize as either just or salutary a state of society in which there is any "class" which is not labouring; any human beings exempt from bearing their share of the necessary labours of human life, except those unable to labour, or who have fairly earned rest by previous toil.

John Stuart Mill.

We have hitherto sought, as far as possible, to limit our discussion of values to those values which have their origin in normal conditions. By normal conditions we have understood those conditions which attend a market unaffected by juridical institutions, laws, or customs. We now come to consider values as they appear in a market affected more or less completely by such institutions, laws, and customs. This leads us at once to a new and artificial element in the origin of values—the power of the State to create and maintain differential privileges in industry, exchange and land tenure.

A **Differential Privilege** is an artificial advantage in industry, exchange, or land tenure, created and maintained directly or indirectly by the State, by means of which the possessor may acquire and retain differential net value.

From the earliest times governments have exercised this power. It is not our purpose in this chapter to seek to justify or specially to condemn such action, but to examine critically the effect of the exercise of such power by the State upon values in various circumstances.

Net value lies between two movable points, the point of positive utility and the point of exchange. The individual producer may increase his net values by lowering the point of positive utility, or by raising the point of exchange as to his particular labor-forms. The point of positive utility may be lowered in such manner as not to affect either the net values of other producers or the net salvage of any consumer. Thus, if an individual producer exhibits unusual ability or acquires unusual skill, the effect may be an increase of net value to himself without any corresponding loss or detriment to another. The same may be true, if he discovers some new process, or invents some tool or instrument or machine for use in his enterprise. In all these cases he may enjoy increased net value, both absolutely and relatively, until the ability, skill, process, or instrument of production, at first peculiar to himself, shall become commonly used by his fellows. If all others are as free as himself to exhibit, acquire, discover, invent and use such ability, skill, process, or instrument, his superiority, while it lasts, will give him a relative advantage, but will ordinarily not increase the disutility, industrial or commercial, of any person.

On the other hand, if the possessor of such advantage can, by law, or under its sanction, prevent other producers from using a like advantage, should they be able to develop, discover, or otherwise attain the same, he not only can increase his own net values, but can prevent the increase of the net values of his competitors in so far as such increase is dependent upon his artificial advantage. Under the law of the market, which makes market price dependent upon the marginal pair, the price of the products in question may remain unchanged, and he alone may possess an exclusive advantage. The lowering of the point of exchange—the falling of price—which naturally follows the free use of an improved method, process or instrument, may be prevented, and thus the consumer is deprived of the advantage of lower cost. It is a necessary result of any such artificial advantage in production that all other producers and all consumers are barred from enjoying benefits which, in normal conditions, would arise from lessened disvalue on the one hand, and lessened cost on the other. All consumers are deprived of the benefits of the normal socialization of utility.

As already indicated, differential privileges may exist in industry, in exchange, and in land tenure. A man may secure an exclusive privilege for the use or control of a certain process, or of a certain tool or machine used in manufacture; or he may secure an exclusive trading privilege at a certain place or in a certain line of trade-forms; or, finally and most important of all, he may secure the exclusive use in industry or exchange, or both, of superior land-forms.

Differential privileges may be granted with the avowed purpose of giving the possessor an artificial economic advantage, or they may be granted immediately and ostensibly for some purpose supposably politic in its nature, the economic advantage being looked upon as merely incidental. The former may be called *direct,* and the latter *indirect* differential privileges. A patent right, so-called, is an example of direct privilege; while a protective tariff furnishes many instances of indirect differential privileges.

The most important distinction in differential privileges arises from the fact that in most cases full and free competition among individuals would be possible but for the action of the State in creating the privilege; while in a few cases natural causes intervene to prevent such competition among individuals prior to any act of the State and irrespective of such action. For instance, in manufacture, all men, in the absence of patent laws or other restrictions, can fully and freely compete in the use of all processes and of all machinery; or, in exchange, in the absence of tariff or other restrictive laws, all men can fully and freely compete in the market. But in such businesses as the operation of steam and street railways, the distribution of consumers of water, gas, electricity, and other so-called "public utilities," full and free competition is impossible from natural causes. But one railroad can ordinarily be constructed upon the shortest and best line between two cities; and even if two railroads are parallel throughout their entire length, the competition is practically limited to these two roads, and may be entirely eliminated by agreements for pooling. In the same way full and free competition is impossible in the use of city streets for street railways, water mains, gas mains, light, power, telegraph, and telephone systems.

It is true that it is physically possible for two or even more competing companies to use a given street for some or all of the foregoing purposes; but this does not alter the fact that every such business involves a differential privilege. The benefits of the privilege in any such case are divided between the competing companies, and it is seldom, indeed, that the competition is strong enough and persistent enough to benefit the public for any considerable time. With two companies in the field there is practically no danger of competition from a third, and the two find it to their advantage to pool their interests and to unite against further competition rather than to compete between themselves. This is not true of the grocery business, the dry goods, hardware, or jewelry business, and the like; nor is it true of any manufacturing enterprise in normal conditions. These are all open to full and free competition; among them pooling is practically impossible.

There is another distinction, however, which more fully differentiates those businesses which are normally open to full and free competition from those which are not. In the grocery business, for instance, it is not necessary for the proprietor to make private use of public property or to invoke the exercise of any public power. He owns the land-form upon which his store is located or rents it from a private owner, and the same is true of his store building. But a street railway company, a private water, gas, electric light, or telephone company makes use of the public streets in a manner not open to the general public. In order to do this they are required by law to secure special grants of privilege from city and village councils in the form of franchises.

In addition to this private use of public property, these companies usually have granted to them by law the right of eminent domain, or the power, through the judicial machinery of the State, of condemning private property for use in their businesses when necessary. This is especially true of steam and street railway companies. In the authority to invoke and use the right of eminent domain these companies have delegated to them a part of the sovereign power of the State, and in condemning private property they exercise what is properly a public function.

In addition to these distinguishing characteristics, the business carried on in an enterprise which requires the grant of a franchise by public authority is itself of a public nature. The corporations which engage in such enterprises are frequently termed quasi-public corporations. They are also known as public service corporations. The State maintains the right to regulate them in a special manner. In the case of steam railways, congress has power to regulate freight charges in all cases of inter-state commerce, and the several states regulate fares and freight charges within their respective limits. It is now conceded that cities may, within reasonable limits, regulate the fares charged by street railway companies, the prices charged by gas companies for their product and, in a general way, by all persons or companies who operate public utilities.

A **Public Utility** is an industrial enterprise which necessitates the special use of public land-forms or the acquisition and use of private land-forms under the special power of eminent domain, or both, in supplying some product or service generally desired by the people.

In present conditions the differential privileges conferred by public authority are of two kinds: monopolies and public utility franchises. The term *franchise* has so many different applications that it is necessary to limit it in this discussion by placing before it the words *public utility*. This is to be regretted, especially as it compels us to adopt a still longer phrase in speaking of public utility franchise values. But, unlike many lengthy terms, these phrases do not tend to obscure the subject. They are easily understood and are capable of accurate definition. Simplicity and accuracy are the first requisites in the elaboration of any science.

A **Monopoly** is a differential privilege exercised or enjoyed in connection with some private enterprise which, in normal conditions, is open to full and free competition among individuals.

A **Public Utility Franchise** is a differential privilege exercised or enjoyed in connection with some private enterprise which, in normal conditions, is not open to full and free competition among individuals, but requires the private use of public property or the private exercise of a public function, or both, to make such enterprise effective in private hands.

These definitions lead to simple distinctions as to monopoly and public utility franchise values.

Monopoly Values are differential net values acquired and retained by means of monopolies.

Public Utility Franchise Values are differential net values acquired and retained by means of public utility franchises.

In the remainder of this discussion the term *franchise* is used only in the sense of *public utility franchise* as above defined.

Franchise values are related upon the one hand to land values, and upon the other hand to monopoly values. Like land values they involve the use of superior land-forms under the sanction of the State; but land values arise under a general form of land tenure applying to the use of land-forms under fee simple titles in enterprises fully open to competition; while franchise values arise under a special form of land tenure limited to non-competitive enterprises only.

A farmer or a merchant occupies a land-form under a general tenure which applies alike to all persons occupying land-forms for the same or for any normally competitive purpose; while a railroad company occupies a continuous strip of land-forms under a special tenure carrying with it the extraordinary power of eminent domain, and uses such strip for a purpose normally non-competitive. When the possessor of a franchise appropriates for special use land-forms hitherto devoted to public instead of private uses (as a public street) he does not exercise the right of eminent domain, but he always engages in a normally non-competitive enterprise. The latter is the distinguishing characteristic.

In a former chapter we have seen that if the State should appropriate by way of taxation—or more properly speaking, in lieu of taxation—the entire ground value of all land-forms each year, the owner's investment in a given land-form, irrespective of improvements, would be but the present worth of one year's ground rent; and upon this investment he would make a percentage equal to the current rate of interest upon secure investments, and nothing more. He could not hold his land-form at 20 years' purchase instead of one, and secure an income based on such increased valuation. Land-forms would increase in value as the economic margin receded, but of this increase the owner could appropriate but a small part (a percentage equal to that expressed by the current rate of interest), the remainder going to the State in increased ground value. Land-forms would then have neither speculative nor monopoly values, and the income of an investment at true values would be the economic equivalent of the income to pure capital invested in productive enterprises at the current rate of interest. Millions of dollars now invested in monopoly and speculative land values would be diverted to productive uses, to the great encouragement and increase of industry and exchange.

Essentially the same thing is true in the case of land-forms used under a franchise for a special purpose. The income of such an enterprise, in so far as it is dependent upon the special use of the land-form, is a species of monopolized ground rent. The value of the franchise as distinguished from the value of the plant itself—i. e., the personal property, so-called, of the concern—is a species of monopolized ground value. If the franchise value is retained by the franchise owner, it accumulates in selling price after the manner of land value; while if the franchise were taxed at 100 per cent of its selling value, this value would be the present worth of one year's income from the special use of the land-forms involved. The net income of the franchise as such would then be equivalent to the interest upon an amount of pure capital equal to the selling value of the franchise at one year's purchase. In such circumstances money invested in an enterprise using a franchise would pay but the current rate of interest, or its economic equivalent. The value of the differential privilege, aside from this current return, would be absorbed annually by the State which granted the franchise. If both land values and franchise values were taxed at 100 per cent of their selling values, the State would absorb all differential values which result from the use of superior land-forms over and above the equivalent of the return to pure capital, and land values and franchise values would yield "unto Caesar that which is Caesar's," and unto the producer that which is distinctively his.

Although economically distinct, monopolies and franchises are closely related. Indeed, they are frequently joined, and the one is made to support the other in a given business enterprise. A street railway company may be possessed of a franchise as to its use of public streets and of one or more monopolies with reference to its rolling stock and motive power. The same person, firm, or corporation, may possess a monopoly in industry, as a patent; a monopoly in exchange, by being the beneficiary of a tariff law; and a monopoly in land tenure through the exclusive ownership of a land-form furnishing natural water power. To these holdings may also be added, in the hands of a single person, or concern, a franchise in the matter of transportation, or of furnishing heat, light, and power by means of electricity to the people of a great city.

All of these monopolies and franchises are dependent upon the State for their existence and enforcement in private hands.

Just as there is an evolution in the development of the normal market, so there is an evolution in the development of monopolies in an abnormal market. First, there arises the simply monopoly, limited in extent and unrelated to any franchise; then follows an extension of the scope and application of the simply monopoly; then the franchise is developed as an adjunct to simple monopoly, rendering the economic situation complex; then follows the establishment, in primitive form, of monopolies and franchises united under one management for the purpose of controlling the differential values of a given trade-form in an extensive local or even a national market; and finally these compound or trust monopolies are extended in scope and application until they seek to affect and control the differential net values of a given trade-form or class of trade-forms in the markets of the world. This evolution is epitomized in the following definitions:

A **Simple Monopoly** is a single monopoly unrelated to a franchise.

A **Complex Monopoly** is a monopoly coupled with a franchise.

A **Compound or Trust Monopoly** is a combination of monopolies, simple or complex, under one management, for the purpose of controlling differential values as to a given trade-form, or class of trade-forms, in a general or universal market.

In a former chapter we learned that when land-forms upon the normal margin are monopolized and held out of use, the result is to force the marginal producers to a lower level and so reduce the amount of the marginal return. Not only this, but such withholding of the normally marginal land-forms from use increases the ground rent and also the ground value of all land-forms above the margin. This makes it more and more difficult to acquire land-forms for use either in production or for residence purposes, and compels a greater number of people to resort to an already artificially depressed economic margin.

In like manner a monopoly in any of the processes of industry or exchange does not expend all of its baleful effects upon those who are directly superseded or injuriously affected by it. The people who are displaced from their normal callings by the existence of monopolies in the hands of a few persons in a given field, seek to find business opportunities or employment in some other vocation where monopolies do not exist. This tends to overcrowd these latter callings and thereby unnaturally to reduce the net values to be obtained therein.

As the divergence between the returns of monopolies and of ordinary occupations becomes more and more apparent, a greater number of people seek the advantages of differential privileges, and monopolies tend to multiply. This still further accentuates the divergence between the favored and the unfavored, and still further accelerates the piling up of unearned net values in the hands of the few upon the one hand and, upon the other hand, the reduction of the wages of the many to a minimum which will barely sustain life and necessary bodily strength. Simple monopolies become complex and the evil results are increased accordingly. And when trust monopoly after trust monopoly is formed, the crowding in the occupations not favored by law becomes so great that all labor values are forced below the normal return to labor-power, and all capital values become less than the marginal return to pure capital. An unnatural and unnecessary strife arises between employers and their employes even where no monopoly is enjoyed by the former. All consumers suffer from prices rendered artificially high, while those who produce receive wages which are artificially low. All such conditions are abnormal and unnecessary and should be abolished.

It is at this point that standard Political Economy comes to the rescue of the established order. It teaches that the evils which we have described are natural and necessary evils, and that they would continue to exist, if all monopolies were abolished and the best of economic conditions were established among men. They maintain that the fecundity of the human race is so great that population constantly tends to press upon subsistence, and that the inevitable result must be a struggle for existence in which the fittest shall survive. But even if this ghastly conception of Infinite Goodness were true, should not all men have equal opportunity to survive? Shall not the State, which assumes to protect the weak against the strong, the property owner against the thief, after production is completed, also assume to protect the weak against the strong, the honest toiler against the exploiter of his labor-power in the process of production? Assuming that the opportunities of nature are not sufficient for the sustenance of the race, shall the State parcel out to the few such opportunities as exist? Does not the general in a beleaguered city dole out the scant rations with an impartial hand?

As long as some men roll in the lap of luxury through the differential privileges of the law, let not Political Economy malign the Most High.

In the United States at the present time there is a corporation engaged in the manufacture and sale of kerosene oil and other products of petroleum. It employs thousands of men, uses both auxiliary and pure capital-forms in large measure, is possessed of monopolies in the processes of manufacture, owns or controls nearly all of the principal oil fields of the continent, controls transportation of its own and like products over railways through a system of rebates, and has numerous and valuable franchises for pipe lines, one of which extends from its principal oil fields to the Atlantic seaboard. In its products appear net values of all possible kinds—labor values, capital values, land values, monopoly values and franchise values, all of which we have heretofore defined. What chance has the ordinary producer of oil and kindred products in competition with this gigantic beneficiary of all forms of privilege?

We have already discussed labor values and capital values, and have shown the relation in which they stand to each other, and in which both stand to land values. From what has been said it may be seen that monopoly and franchise values are essentially different from labor values and capital values. The latter two are based directly upon labor-power, do not depend upon the power or favor of the State for their creation, and can be traced to the labor-power of particular individuals; while both franchise and monopoly values are based directly upon the power of the State in granting and maintaining differential privileges, and can not be traced to the labor-power of any particular individual or individuals.

While monopoly and franchise values differ essentially from labor values and capital values, they also, in many respects, differ from each other. Monopoly values would not arise at all, were it not for the action of the State in creating them. On the other hand, franchise values, like land values, would arise without any positive action by the State.

The restriction placed by nature upon the use of superior land-forms exists independently of the State, but the State can not exist without exercising some sort of control over the land-forms within its limits. The State has to do with territory as well as with people; and while it does not create either land-forms or land values, it controls the tenure of the one and the distribution of the other. If land-forms are used under any organized and orderly system of industry and exchange, the State must establish and maintain some form of land tenure; and if enterprises not in themselves fully open to competition are left in private hands, the State must grant and maintain franchises. But the special value of all franchises may be appropriated by the public in taxation or by the terms of the franchise. Under a competitive system in which public utilities are not directly socialized by public ownership and operation there is an economic reason for the creation of a franchise—a differential privilege, at least in form, in a business naturally non-competitive; but there is no economic reason or excuse whatever for the creation of a monopoly—a differential privilege in a fully competitive business.

In this connection it should be borne in mind that the point of exchange measures not only value to the seller, but cost to the buyer. Therefore a rise in price, or the artificial maintenance of price above the point incident to the normal market, can not increase the net value of a producer or seller without at the same time correspondingly increasing the cost to some buyer or consumer. Consequently there is no possibility of any general or aggregate economic gain in the enactment of any law creating or maintaining a monopoly. The statesman must look wholly to politics for justification when he proposes to create or maintain monopoly values of any kind or character; and he must first demonstrate that anything can be politic which is not at the same time economic.

Under the assumption that enterprises which require franchises are to be left in private hands, we have shown the relation of franchise values to land values, and the effect of a distinctive tax upon franchise values. There is another view of this question, however, which still more clearly identifies franchise values with land values, and which shows that by a simple process the former may be transformed into the latter.

We have already shown, by way of illustration, that if natural gas should be distributed by any city to its citizens at cost, in lieu of the distribution of artificial gas by a private company at a higher price, the saving in the cost of gas would be offset by a rise in ground rents. If now the same city should furnish this natural gas absolutely free to its citizens, bearing the cost of distribution itself, the result would be a still greater increase in ground rent, and consequently of the ground value, or selling price, of building lots. If, however, the city should increase its taxes upon building lots, irrespective of improvements, i. e., upon bare ground values, to such an extent as to absorb into the public treasury this increase in ground value, the amount of its revenues would be substantially the same as if it collected the cost of distribution from each user of gas and allowed its tax rate to remain as before. The matter of collection of this revenue would be greatly simplified, however, by the plan of furnishing free gas and raising the tax rate on ground values.

The same principle applies in case of any so-called public utility. Any city having a municipal water plant could abolish all water rates and collect the cost of the distribution of water by means of appropriating in increased taxes that ground value which would result as certainly as the sun would continue to shine. A city owning and operating its own street railways could give free transportation and collect the cost in taxes upon increased ground values. For if transportation were free, rents in the residence districts would rise until the saving in car fares was wholly absorbed, and ground values would rise accordingly. The State instead of private owners could then appropriate the increase. This principle can be extended to include free transportation upon steam railroads owned and operated by the State; it points to the ultimate municipalization, with free use to the citizen, of all public utilities.

Attention is again called to the fact that free gas, free water, free transportation and the like, while increasing the value of superior land-forms, would not increase the value of labor-forms, either as satisforms or capital-forms, in the least degree. Indeed, such free utilities would tend to increase the production of all labor-forms, and so cheapen them. The importance of this distinction between the effects of cheaper public utilities upon land values and labor values, respectively, will be seen in the next chapter.