Cost and Price

OR THE

Product and the Market

By ISAIAH SKEELS

AN ANALYSIS OF THE NATURE OF COSTS AND AN INQUIRY INTO THE ORIGIN OF PURCHASING POWER AND CREDITS SHOWING THEIR LIMIT IN PAYING THE PRICE OF PRODUCTS AND THE EVER INCREASING NECESSITY FOR MUNICIPAL AND INDUSTRIAL BOND ISSUES

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Chapter II.

RISE IN LAND VALUES.

In one respect this country has witnessed a greater change in three generations than the older countries witnessed in three times three centuries. During three generations a world of natural resources has changed from public ownership to concentrated corporate private ownership. Where once the labor of our sires was employed in developing capital, capital is now employed in developing land value. Where once the natural resource was only incidental to capital development, the employment of capital is now incidental to land value development. Land value is now demanding higher dividends than the combined earnings of capital and labor.

To illustrate, a man from Pennsylvania appeared before the Ways and Means Committee of Congress, while they were framing the Payne-Aldrich tariff bill, and requested that higher duties be levied on iron ore and pig iron. The reason which he gave for asking higher duties was that his company owned two thousand acres of low-grade iron ore. He was unusually honest in his request, stating plainly that they had owned the land for fifty years and felt that it was about time that they realized something on the "unearned increment," and were ready to employ capital in developing it. He did not put in the usual plea that he was employing labor and desired to pay big wages; all he asked was more "unearned increment." In this his honesty is commendable, and his name might be published as an example to those who never seek an advantage for themselves in higher tariffs, their only object being the advantage to labor in higher wages.

But this work is not a discussion of the right or wrong of protective tariffs; and to show that present prices are not the result of the Payne-Aldrich tariff we will make some quotations from the "hearings" before the Ways and Means Committee while the bill was under discussion. The following is clipped from the brief submitted to the committee by President Edgar S. Cook, of the Warwick Iron and Steel Co., Pottstown, Pa. This clipping is abbreviated so as to bear on the advance in price—and the nature of the advance—rather than a tariff argument.

"POTTSTOWN, PA., DECEMBER 30, 1908.

Committee on Ways and Means,
Washington, D. C.

Gentlemen: The Warwick furnaces are typical merchant blast-furnaces.

They are not connected with any steel works, nor with any works wherein pig iron is fabricated into finished forms.

All the iron made is sold at competitive prices.

The great difference in cost between 1898 and 1908 can readily be seen as follows:

Year	Ore cost per ton of iron	Fuel cost per ton of iron
1898	$4.54	$3.02
1908	8.11	4.00

The actual cost of conversion for 1908, as compared with 1898—that is, labor, salaries, fixed expenses, etc., with two furnaces in operation—is as low as in 1898, notwithstanding that the wages paid labor are considerably higher than during 1898. The increased wages paid employees have been neutralized by the benefits derived by expenditures on capital account.

While cost of fuel for 1908 per ton of iron shows $4 as compared with $3.02 for 1898, the consumption of fuel per ton for 1908 was fully 300 pounds less per ton of iron than for 1898.

Attention is called to these items in order to show the practical value of expenditures on capital account, to improve the efficiency of the furnaces, and to lower the cost of conversion, thus helping to pay the higher wages."

In the fuel cost, it will be observed, the better capital expenditure made a saving of 300 pounds of coal per ton of iron, and yet the reduced quantity of coal cost 98 cents more in each ton of iron. In a table marked "Exhibit A," Mr. Cook states that in 1899 they sold their product f. o. b. Pottstown for $13.36 per ton at a profit of $2.35 per ton; in 1903 they sold it for $17.60 per ton at a profit of $0.27—and this after making improvements; in 1907 they sold for $20.18 at a profit of $1.39. A lower margin of profits at $20.18 per ton than at $13.36 per ton, and this with improved capital and no higher wage cost. Their selling price in 1898 was $9.79, less than half that of 1907.

Mr. E. C. Felton, Haverford, Pa., president of the Pennsylvania Steel Company, in his testimony before the same committee, corroborates Mr. Cook's brief. The following is a verbatim clipping from Mr. Felton's testimony. (Mr. Cockran, Mr. Gaines, and Mr. Dalzell of the committee.)

Mr. Cockran. The increasing cost is largely due to the increase in the cost of the raw material, is is not?

Mr. Felton. Raw materials, freight and labor. If you will let me state it, I will tell you just what those costs are.

Mr. Cockran. Certainly.

Mr. Felton. Iron ores which in 1898 cost us $2.25 a ton at lower lake ports—

Mr. Cockran. $2.25?

Mr. Felton. Yes; (continuing) in 1907 cost us $4.75.

Mr. Gaines. In 1898 it was what?

Mr. Felton. In 1898 they cost us from $2.15 to $2.25 per ton at lower lake ports. In 1907 they cost us $4.75 for those same ores. The unit price, which, after all, is the thing which determines the cost of ore going into a ton of the pig iron, cost us in 1898 $5.75—that is, the amount of iron ore necessary to make a ton of pig iron cost $5.75, and in 1907 it cost us $11.25.

Mr. Dalzell. What was that last statement?

Mr. Felton. The iron ore which was necessary to make a ton of pig iron—not the price per ton of the iron ore, but the iron ore necessary to produce a ton of pig iron—cost us at our Maryland works in 1898 $5.75 a ton. In 1907 the same ore cost us $11.25 a ton.

Among others testifying along this line, Mr. Charles M. Schwab, formerly president of the United States Steel Corporation, now president of The South Bethlehem Steel Co., called attention in explaining the rise in steel prices, to the fact that coal lands (coking coal) in the Connellsville region had advanced from $600 to $3,000 per acre, and that the Carnegie company acquired their ore lands at ten cents per ton. A clipping from Mr. Schwab's testimony may be interesting. (Mr. Crumpacker and Mr. Randell of committee.)

Mr. Crumpacker. The Mesabi deposits are owned almost entirely now by the large manufacturers?

Mr. Schwab. They are.

Mr. Crumpacker. The small, independent manufacturer has to buy his pig iron or his ore from competitors?

Mr. Schwab. That is true.

Mr. Crumpacker. The Mesabi deposits are the chief source of iron ore for the northern producers?

Mr. Schwab. Not Mesabi alone, but the Northwest.

Mr. Randell. There was a charge, you say, of royalty, of about $1 a ton?

Mr. Schwab. Yes.

Mr. Randell. Twelve years ago the ordinary price of royalties for iron ore was about 25 cents a ton, was it not?

Mr. Schwab. I have leased it as low as 10 cents a ton.

Mr. Randell. The iron mines are scattered in various parts of the country, are they not?

Mr. Schwab. Most of them are in the Northwest, in the lake district.

Mr. Randell. And twelve years ago they were owned by a great many people?

Mr. Schwab. Yes.

Mr. Randell. Since then they have been bought up and are now owned by a few corporations?

Mr. Schwab. Quite true.

A little girl, in telling a friend where she had been during vacation, said after naming a number of places: "That's only where we went before we went."

And the rise in prices prior to 1908, as noted above, is only the rise before the rise began. But this rise of 1,000 per cent in the royalty value of iron ore cannot be charged against the Payne-Aldrich tariff, nor did the reduction of the iron schedule in the Wilson bill—and adopted in the Dingley bill—in any way prevent the rise.

Land value has always been an element of cost in production, by reason of the cost of factory sites and the ground rent of warehouses. But the year 1870 really marks the beginning of royalty costs in raw material. Prior to this date, while the natural resources more favored by location were in private ownership and covered by good stiff prices, the manufacturer who used the raw material could still go farther back and at a greater labor cost procure all he needed. While this did not reduce the cost of production nor lower the price, the labor cost was still a greater percentage of total cost, and the need for capital permitted a greater margin of profits to capital, thus allowing wages to buy a greater portion of the product and allowing capital to carry a larger portion to improvements, without issuing bonds to cover the cost.

About 1870 there began an economic contest between capitalized inventive genius and capitalized land speculation, one straining to devise better methods and improved machinery to reduce the cost of production, and the other to devise ways and means for increasing the cost of raw material and add to the cost of production. For twenty years inventive genius led the race, and selling-prices grad-

ually declined as capital and labor doubled their output without added human costs. But capitalized land value was running a good second, and where in 1870 the percentage of production cost stood *labor* .52, *capital* .42 and *land value* .6, in 1880 it stood *labor* .37, *capital* .34, and *land value* .29—a net gain to land value of 23 points, although inventive genius had broken all records in reducing capital and labor costs in production. It was during this decade that war was declared between capital and labor. The net gain of 23 points to land value did not come out of nothing; and as capital and labor felt a slipping of their respective portions, they tried to recoup their losses, not by fighting land value, but by taking it out of each other's hides. But inventive genius was not to be easily beaten. The contest went on for another ten years, at the end of which the ratio of cost percentage in 1890 stood *labor* .32, *capital* .16, and *land value* .52. Another score of 23 points for land value.

In 1890 the "dead line" in prices was reached. Land value, representing one-half of the cost of the product, could control one-half of the product, or one-half of the purchasing power generated by the product. Inventive genius had lost the race so far as being able to reduce prices still further was concerned. Labor, representing only one-third of the cost of the product, could buy only one-third of what it had produced. Capital, representing only one-sixth of the cost of the product, could control only one-sixth of the product, but was compelled to assume the responsibility for all surplus not sold and consumed. As capital and labor, being but one-half the cost of production, were limited in buying of the product to the one-half which represented their share as measured by cost, it naturally followed that the other one-half must be bought and consumed by the owners of land values, or a surplus of products and loanable funds would result. It was during this period that "over-production" first made itself

manifest in a world-wide commerce; and for the first time in history a falling market saw an abundance of loanable funds without any inflation of credit money, even in the face of a diminishing volume of basic money. The paradoxical condition of an actual shortage in the volume of money and an over-abundance of loanable funds was manifest in every part of commerce. It was only a question of "security." While a manufacturer could not obtain a commercial accommodation at "call loan" rates to make up his pay-roll, the government's call for a "gold" loan was subscribed ten times over. Nor was this condition the result of a 'money agitation"; it preceded and caused the agitation. It was the development of a series of years; the money agitation followed the development, and became more acute as the condition became more oppressive.

There is never an agitation without an irritation; never an effect without a cause—even though those who profit by the cause can see and feel no reason for irritation or agitation. To those who profit by such a cause a resulting agitation becomes an irritation; they mistake effect for cause, and blame the agitators for the cause of their unrest.

Timber was a much larger factor formerly in manufacturing and building than now. The lower costs on timber used in various forms of manufacturing and construction caused timber to advance in stumpage price before ore and coal royalties really felt the advance. While ore and coal royalties really began their advance in 1898, and were heavily capitalized in 1899, timber stumpage began to advance in 1870.

It was in 1868 that the writer first saw the process of lumbering pine forests. A fine body of timber was being logged off near his home; the logging contractor received $4 per thousand feet for cutting, skidding, hauling and putting it afloat in the water. The logs were worth $6

per thousand feet in the water, that being the amount paid by mill-owners for logs of equal quality. This price covered $2 land value cost and $4 of capital and labor cost—mostly labor. The land value cost was exceptionally high for that time, as the timber stood on fairly level and dry ground, with an outside haul of less than two miles. Timber farther from water would have been lower in land value cost and higher in capital and labor cost. In 1882, after land value had scored its first 23 points, another body of pine timber, relatively the same in quality and convenience, was logged by contract. In the meantime there had been some improvements in logging and some reduction in wages, and $2 per thousand feet was all that was paid in the contract for relatively the same work. The owners of the timber had just paid $12 per thousand feet stumpage; this, with the logging price, made $14 as compared with $6 fourteen years before. This change in relative costs shows an advance of 600 per cent in land value cost and a decline of 50 per cent in the capital and labor cost of logging, while it required more than double the volume of capital to handle the same volume of lumber as in 1868. To the owner of the timber, who had acquired title from the government on Mexican war land warrants, at a cost of 40 cents an acre, the selling-price of $12 per thousand feet evolved into a loanable fund, as the same condition of his finances which enabled him to hold the land out of use also enabled him to hold the obtained price out of use. In simple fact, a part of the purchase price was a $10,000 mortgage on a 600-acre farm owned by the purchasing mill-owners, who must have the timber to continue the operation of their mill.

It will be noted here that the active factors (the mill owners as capital and their workmen as labor) in the production of this lumber could not purchase one-half the value of their output with their profits and their wages. Their cost proportion was less than half of what they put

upon the market, while the other portion of cost could not enter the market in buying for consumption without squandering estate principal.

Not only did the selling-price of this pine timber evolve into loanable funds, but the land owner then sold the stump lands to actual settlers on contract, thus increasing his loanable funds. And what was more, he loaned a part of what he received from the timber sale to these same settlers to assist them in building their homes, thus exalting himself to the post of a depressing Providence passing out to a poverty-stricken people the blessings to come from the resources of Nature. The writer as a civil engineer ran the lines and staked out the lands for these settlers. The same quality of pine timber, in any fair location in Michigan or Wisconsin, would now be worth fully $30 per thousand feet stumpage.

To illustrate the principle that is being traced: A capitalist (mill owner) purchases from a landlord a tract of pine timber for, say, $1,000,000 stumpage cost. This $1,000,000 cost represents Nature, for it contains no human costs. It is the investment principal of the landowner, and to use any part of it for consumptive buying would mean depletion of principal. While he can use only the commercial interest on the $1,000,000 in buying for his needs, it is still imperative, as the purchasing capitalist must stand the interest, that the full $1,000,000 and interest be covered in the selling-price of the lumber cut from this timber. The object of the capitalist is the profit coming from cutting timber and selling lumber, and handling this body of stumpage requires his having a capital—or paying for a credit capital—one million dollars greater than if the timber were as free to him as to the earlier lumbermen, or to the man from whom he buys. Since all costs covered in the selling-price must also, if we would have balanced markets, enter the market in buying the product, it is evident that this land value

timber deal will generate a $1,000,000 loanable fund and $1,000,000 of over-production—if not consumed on credit. It forces a debtor condition with no compensatory alleviation other than the loan.

Prior to 1870, a railroad had been constructed through a section of country where, for a short distance, there was a fine lot of hemlock timber from which the road derived its supply of cross-ties. The road paid 20 cents per tie for what it required, delivered at convenient points along its right-of-way.

Most of the people in that section had settled on the land with farming intentions, and the sale of a few ties was quite a help, as the timber was considered only an incumbrance to crop-growing. A railroad tie was a matter of 20 cents of wages for man and team; and as some men had no tie timber of their own, timber was given away on land about to be cleared, because it was easier to have someone cut and haul it off than for the owner to cut and burn it. As in all new sections of the country, land speculators had bought—or the state had given them—a large portion of the land which they were holding while the settlers made it valuable by building highways and school-houses. These speculators would not give away any timber to help those who were building values for their benefit, but would sell stumpage at 2 or 3 cents per tie. At first, no timber was considered worth while unless standing on dry ground and very near the railroad; but as the nearest timber was cut away, and, as more people needed work they would go farther back and pay higher prices for the stumpage.

The first settlers were either "homesteaders" or had obtained their lands at the government price of $1.25 per acre and were practically free from debt, since that which is free generates no debts; and they were proportionally independent. But those settling later either paid all their money for the land at the speculators' price or were in

debt for it. This created a demand for the opportunity to earn money, and gave an added price to the tie timber, as it furnished winter work. The greater the demand for opportunity to earn money by making ties, the higher went the stumpage price, until what was formerly considered an incumbrance to the land was now giving the land an added value by its quantity of stumpage. Where formerly timber was given away within two miles of the railroad, it was now being sold at from 5 to 7 cents per tie at distances of five and six miles—the railroad still paying the same price. Just as the labor in a tie increased by the distance from point of delivery, the wages in the tie decreased by the rise of land value in the tie. The last of the timber in that section to be cut away was valued at 14 cents stumpage and—the railroad raising its price to 21 cents—wages received on each tie were 7 cents, including team work—a decline from 20 to 7 cents.

This is describing an actual condition in which the writer, as owner of part of the land, was a participant. And it might be well to state that wages, measured *per diem*, for making and hauling the ties, did not materially decline. This was owing to the fact that as the margin of wages in the tie declined the more skilled axmen developed additional skill and the ordinary workers abandoned what would not pay ordinary wages. Axmanship became a profession in which only an athlete could earn wages, and as the workers developed skill with the ax and better roads were constructed for hauling larger loads, the land value advanced and absorbed all the profits of their added efforts and improvements. Where an ordinary axman could make fair wages when paid 8 cents for hewing out a tie, the skilled athlete with an ax could earn big wages. Where an ordinary team could haul twenty ties at one load over the new forest roads, a better and heavier team could haul sixty ties over the improved highways and haul more loads per day. Thus the finer physical development and

more skilled men, the larger and better-bred horses, the wide-tired wagons and the better highways could not raise the earnings of labor. The harder the people worked, the more efficient their skill, the more labor they put on the highways, the better their teams, the higher went the price of the land and the less were their wages in the per cent of what they produced, and the more they would have to pay for the land to which their labor had given value. This is the reward of labor and the portion taken by the land.

While this was an actual case, it was isolated and in effect relatively small; yet it represents the principle involved in all cases of land value development. While in the earlier development of industry, capital was the prime object and the capitalist invested in land only that he might be assured an abundance of raw material for his factory; yet, wherever the woodsman blazed the trail for the settler, the millman and the manufacturer, there lay the land grant and the title of the speculating landlord. There might have been free lands for the settler, but the first choice was to the speculator, who, by feeing the government surveyor, had obtained lists of the most desirable lands. The hunter and the trapper blazed the trails, the settlers hewed out the wagon roads, and the capitalist—merchant and millman—followed with the stock of goods and with saw-mill and grist-mill, and later with the woolen mill. But the speculating landlord awaited results. The long arm of political influence could reach far into the forests to find means with which to pay for political favors; even the bare promise to dig a canal or build a railroad has obtained titles to princely domains. There was land in super-abundance, and the people seemed to feel that if it were not pinned down with a title it might get away. What was the harm of a grant of land hundreds of miles from a settlement?

To the earlier settler the lands of the speculator furnished a hunting-ground and a pasture for his cattle, while his labor in constructing highways and school-houses was giving to these lands a value. The earlier settler made the improvements which opened the forest and gave value to the land of the speculator; the growing population furnished the demand for these lands, and the present high prices are to cover land value costs. *But land capitalization can pay a dividend only by adding to the cost of production and to the price of the product.*