

LAND VALUES AND PUBLIC UTILITIES

(For the Review)

By **GEORGE WHITE**

James W. Bucklin's essay on the taxation of public franchises (May-June issue of the REVIEW) should receive more complete attention than I gave in the brief comment appended to it as it appeared. In that comment I said Mr. Bucklin was "all at sea—had not fully thought out his subject." This was so clearly the case that, after first reading Mr. Bucklin's manuscript, I suggested to the editor it should not be published at all, but should first be returned to the writer for revision in fundamental points and not in mere style or because of minor imperfections. Now, after re-reading it in type, I feel it challenges full and free criticism in these days when so much of what may be called "bad economics" is put forth by prominent, active and well-meaning Single Taxers who fail, for some reason, to test propositions by independent thought before accepting them and publicly advocating them.

This discussion was begun by the publication in the Nov.-Dec., 1916, REVIEW of an article by me on taxing public utility corporations, in which I purposely confined myself to a consideration of what must happen if any payments are made by such corporations for the privilege of using the public streets, holding that the final incidence of such payments or rent must be on the patrons of the service. Also that even in this view the imposition of taxes on franchise privileges, or the requirement by municipalities of a rent for easements in public land, might be justified upon the ground that patrons of public utility service are the real "users and occupiers" of the public streets in a special way. Further, that even under municipal ownership and operation, fares and rates also might reasonably be made high enough to cover a rent for special use of the public highways. Finally, that a definite tax upon gross receipts would be a simple plan by which to collect what may be considered to be due to municipalities so long as public utilities are privately owned and operated.

Chief among the propositions set forth by Mr. Bucklin, in his attempt to convict me of spreading false doctrine and of being willing to give up a vital part of the Single Tax programme, is the argument that land value is not normally a factor in the price of products. "A merchant," he says, "paying \$5,000 a month rent sells his goods for no more than does the small merchant paying but \$10 per month. Wheat from a farm worth \$200 per acre sells in the same market for precisely the same as does wheat from land worth \$20 per acre." Surely so, but this does not prove that land value or rent is not a factor in price. Mr. Bucklin to the contrary notwithstanding, there are three things which, normally, go to make up the final price of products—

wages, interest AND RENT—where rent exists. It is through not understanding this, or forgetting it, that Mr. Bucklin falls into a serious error. It is strange how a veteran should so stumble, but the fact remains.

Let us examine a simple case. Here is a man who exerts labor and uses capital at the margin or at the least desirable place actually used. He works a day, and brings forth a certain amount of product. Elsewhere there is another man of equal industry and capacity, using the same amount of capital, who produces three times as much as the other in a day, the difference being entirely due to location advantage. The product cost, measured in wages and interest, is the same in both cases. If product is to be sold at the bare cost of wages and interest, two sets of prices must prevail. One man will manifestly have to sell at one-third the price made by the other. Land value or rent is, so to speak, the justification for the making of the same market price by the man who because of location can do a larger "volume of business"—can produce more easily and more cheaply—than the "man at the margin." The man with the better location naturally takes advantage of the situation. He sells at the market price. If he owns the location he really gets two-thirds of his product as rent. If he pays rent, he pays two-thirds of his product, or the price of two-thirds, as rent. It is the possibility of commanding the market price, although in wages and interest it is not earned, that gives rise to location value. Thus rent is beyond question a factor in the proper or natural price of any product brought into existence at a superior location—at one above the margin.

Having so gone astray, Mr. Bucklin is led to argue that, since rent or land value is not a factor in the price of merchandise or wheat, it is not a factor in the proper and natural price of public utility service. The comparison is rational, but the conclusion falls down entirely because of the fallacy in the premise. The very reverse is true. Because rent is a factor in the natural price of merchandise and wheat at superior locations, it is a factor in the natural price of public service where rent exists. If it does not exist, it is not a factor. "Franchise value," says Mr. Bucklin, "is a land value, arising, disappearing or declining as other land values." Very well. Then if utility corporations are put into possession of land values, and if they have in one way or another to pay for this possession, they not only will naturally count this payment as a cost of operation, just as the merchant or farmer does, but they will have to let this cost of production enter into the price of their product. There is no escape from this conclusion.

Now as to the incidence of rent as part of price. Who pays the rent of the merchant at \$5,000 per month or the annual land value where wheat is raised on land worth \$200 per acre? Certainly those who buy the merchandise or the wheat. Not in price increased over the marginal price—of course not. But in price increased over what would be the price if no rent was figured. In paying for goods or wheat sold or produced on land offering so much

advantage that wage and interest cost is lower than is the case on poorer locations, customers pay more than wages and interest alone earn or justify. In paying the market price—the natural price—they furnish the rent to the merchant or farmer at the better places. So with patrons of public utility service. If they pay rates or fares made up of wages and interest alone, they pay less than if rent is made a factor. If they pay rates or fares with rent counted as a factor, they pay rates so much the greater as the case may be, and furnish the rent equivalent. A part of what they pay covers wages and interest. The other part covers rent.

Mr. Bucklin figures that one-fifth of all land values are franchise values, railroad and public utility corporation franchises being both included. He evidently wishes substantially all this land value, as well as all other land value to be appropriated for public benefit by taxation, and yet he insists that rates and fares must be confined to a base composed of wages and interest. This is just as impossible in the case of railroads and utility corporations as it is in the case of other holders of valuable land. If product prices are to be confined to wages and interest, no land value or rent will exist, and no tax on land value can be collected. Rent must find a place in product price at valuable locations whether the product is that of merchants or farmers or railroads or gas companies, if rent is to be considered and accounted for. Mr. Bucklin must either give up the idea of collecting land value taxes from railroads and utility corporations, or he must be content to have these taxes as a factor in the making of railroad or utility rates or fares. Mr. Bucklin must either abandon the expectation of collecting taxes upon land values other than those owned or controlled by railroads and utility corporations, or he must allow everybody everywhere to consider land value or rent as a cost of operation—a factor in the making of a market price.

I need go no further with my refutation of Mr. Bucklin's fundamentally erroneous propositions, but I may profitably here refer to railroad land values. Railroad companies own very valuable lands. It would appear to be their duty and responsibility—their function, indeed, as landlords—to do with these lands what owners of other lands should do—put them to their best use, and from them produce results that will, at a fair and natural market price, cover wages and interest and rent. We must expect that railroad directors will claim the full current value of their lands just as other landowners do, and the right for this purpose to figure taxes on land values as a cost of operation and to capitalize the untaxed part of land value as it now is or as it may grow to be in the future. In doing this they will be doing exactly what we Single Taxers believe other landowners naturally and properly do, subject to the possibility that the people will appropriate by taxation a larger part of land value than is now the case. Moreover, if railroads do so, it no more follows that rates and fares will be increased over a proper standard than it follows that prices are increased by farmers or merchants as land values grow in

special places. Price can still remain for railroad service as for merchandise, the natural or market price, which must be sufficient to cover rent as well as wages and interest.

These facts have not been fully considered by those Single Taxers who vigorously oppose the full capitalization of untaxed railroad land values, and, without any attempt to justify the proposition on economic grounds, demand that railroad lands be valued today only what they originally cost—a contention that, if applied to lands other than railroad lands, would make the Single Tax impossible. Whether railroad lands were acquired at little or no cost, or even under a special contract, made at a certain more or less remote time between people now dead and buried, that in consideration of getting rights of way for nothing passengers and freight should be carried at a special low cost—these considerations have no bearing upon the main question—which finally resolves itself into whether railroad land values shall or shall not be a source of large public revenue, although passengers and shippers must furnish this revenue income, as an item of rent, in a price naturally and properly covering all three factors in market price—wages, interest and rent.

I do not for a moment deny that utility company charges can be reduced to bare wages and interest if the people so decide and abolish taxes upon the companies, or that public utilities may be furnished absolutely free of charge to consumers if we wish it done under public ownership, or that even the quite important plan of Oliver R. Trowbridge, in "Bi-Socialism," to make all transportation of persons and products free of price in order to better the condition of all workers at inferior locations, may some day be put into effect. What I am contending for is that if we get public revenue by franchise taxes or any other land value taxes from utility corporations or railroads, we must all remember we are collecting rent by so doing, and that item must be considered as a cost of operation, to be a factor in rate making not because rate regulating authorities may "be misled or lack economic ideas," to quote Mr. Bucklin again, but because rent is, in the very nature of the case, universally to be met in business affairs by affecting product price.

If Mr. Bucklin or anyone else can show I am wrong, let the proof be forthcoming.

ANY settlement of the land of a country that would exclude the humblest man in that country from his share of the common inheritance would be not only an injustice and a wrong to that man, but, moreover, would be an impious resistance to the benevolent intentions of the Creator.—BISHOP NULTY, Bishop of Meath, Ireland, Letter to Clergy and Laity.

LAND should be given to those who can use it.—RUSKIN.