FACTORS IN THE COST OF PRODUCTION.

(For the Review)

By JAMES W. BUCKLIN.

George White again demands the exemption of public service corporations from any government tax on their forty thousand million dollars worth of property. So tender is he of the sacred privileges of our multi-millionaires, that while he would take the land values from our farm and home owners for public purposes, he would exempt these big corporations from all tax altho they own at least 20% of all the unearned increment in America.*

I have no interest in Mr. White's personal argument, yet he can have no greater contempt for "fundamental points," "style," "minor imperfections" and "not fully thought out subjects," than I have for dogmatic assertions which confuse "cost" with "price" and shift taxes on land values to the consumer.

That taxes on land and franchise values cannot be shifted or added to the cost of production, but finally rest on the land or franchise owner, is a fundamental Single Tax principle, and is also generally recognized by all schools of political economy. In his first article Mr. White denied this principle as applied to public service franchises, and now makes a general denial, claiming that such taxes add to the cost of all production and operation, leaving for his discrimination in favor of the big utility corporations no principle whatever. My original purpose, to show that Mr. White was not in accord with Single Tax, but was advocating in the REVIEW something in direct conflict with its principles, is therefore now fully established. Perhaps I should carry the argument no further. But as Mr. White now claims that rent is also added to and made a part of the "cost of production" and asks me to point out the error in such claim, I will endeavor so to do.

What do we mean by the term "cost of production?" Fertile soil will produce much more wealth per unit of time, labor and capital than barren soil; rich mines than poor mines; more valuable lands than less valuable. If the term is to be given a clear definite meaning, cost must be the same not of the total product, but per unit of product whether on fertile or on barren soil, on rich or on poor mineral lands, on land at the margin of cultivation or on the most valuable land. Cost per unit of product must be comparatively uniform in amount whether rent is high or low or non-existent. Otherwise the term would be meaningless, having no uniformity or stable conditions. The normal cost of production per quart, per pound, per yard, or other unit of measure, must therefore be definitely fixed and measured by some line always existent, whether population be dense or sparse, whether land be fer-

*The editor of the REVIEW does not so understand Mr. White.

tile and valuable or otherwise. There is but one such line. It is measured and fixed by the margin of cultivation, and is identical with the rent line. Below this line are wages and interest; above it, rent. Production above this line, although graduated from and related to it, is a social surplus which has nothing to do in fixing the cost, rent taking it all, leaving to the cost of production no advantage from the better location. "Cost of production," therefore, if it is to be used as a term in economic discussion, always means the cost, not of the total product, but per unit of product at the margin of cultivation.

Now at the margin of cultivation there is no rent. While land, labor and capital are here as elsewhere required in production, yet here rent being absent, does not and cannot enter into the cost of production. Rent then cannot be an element in the normal cost of production.

Let us assume, for argument's sake, that rent is a part of the cost per unit of production. Then wages and interest being substantially uniform thruout the country, the cost of each product would increase as rent increased. Cost of production would be highest per unit on the most valuable land, sliding on a gradual scale down to the least valuable land from which wages and interest could be made. The merchant occupying the more valuable land, would sell his goods at a higher price, because his rent being part of the cost, must be added to the price. Every purchaser, knowing that he would be required to pay more for goods got from the more valuable sites, would keep away from business centers. Wheat, corn, vegetables, meat and all other food products would not only cost more if raised on valuable land, but would sell for a higher price in the same market. The value of land occupied by the factory would determine largely the cost of manufactured goods. Factories would locate in the country, or better yet, on the western frontier or on the abandoned farms of New England. Railroad transportation would be cheapest where rights of way were low. It would be in the small towns and not in the large cities that street car fares, electric light, power and gas bills would be small. In fact if rent was added to the cost of production, or was an element in such cost, then all production or business in cities must cease, as it could not compete with the cheaper cost elsewhere. It is self evident that the theory that rent is added to the cost does not accord with the facts.

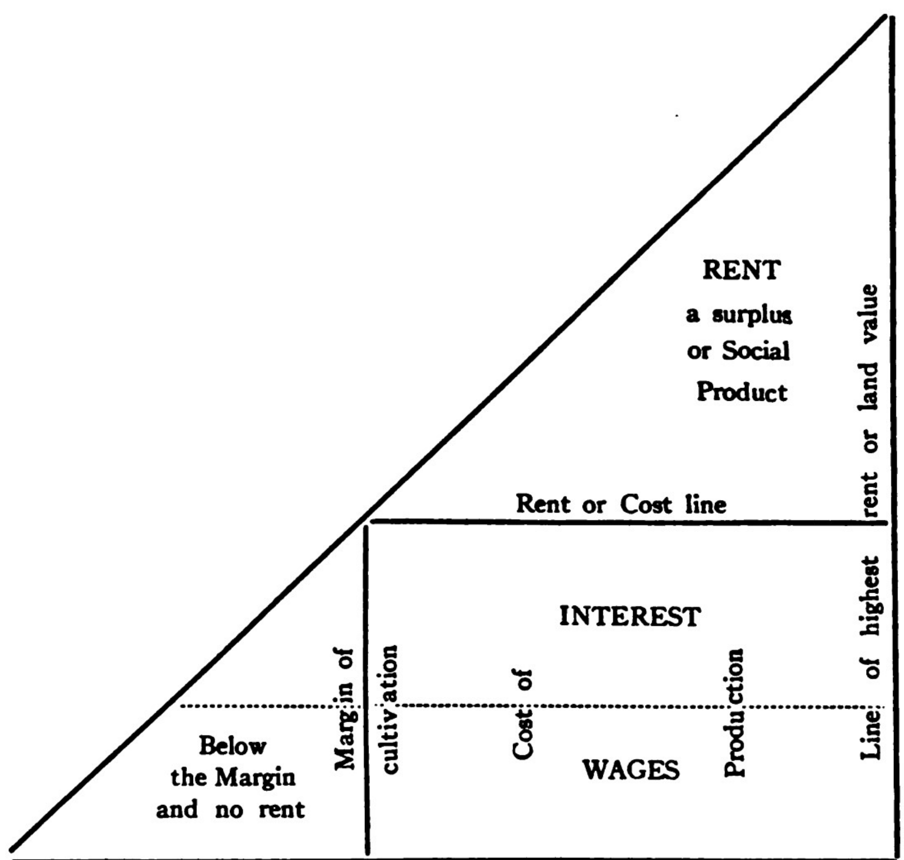
Ground rent is never a factor in the cost of each unit of production. The merchant paying the higher rent usually sells his goods for less than the merchant paying the lower rent. The better site brings to the merchant more customers and he makes the rent not from a higher price of each article but from a larger business. So with all other production. A larger product, measured in value, comes from the more valuable sites. From this larger product, all rent and franchise profits are paid without adding to cost or to price.

The three factors of production are land, labor and capital. The three correlative factors in distribution are rent, wages and interest. Rent then is not a factor in production but in distribution. It is the production of wealth which causes the cost of production, the factors in distribution having nothing to do with it. How wealth is distributed after it is produced does not affect the cost. Nothing can be a factor in the cost of production which has no such cost. Land has no cost of production and is never expended in production, but exists from generation to generation comparatively unimpaired. It is labor and capital that have a cost of production and are expended in production. Considering capital as stored up labor, George says, "Labor is the producer of all wealth." The labor and capital cost then, or in terms of distribution, wages and interest, are the sole factors in the cost of production.

The primary mistake in Mr. White's argument lies in the assumption that because wages, interest and rent are factors in the distribution of production, they must also be factors in the cost of such production. Nothing could be a factor in such cost which, like rent, everywhere varies in value from nothing to millions of dollars per acre. Cost, not of total product, but per unit of product being necessarily uniform in value, its factors must also be substantially uniform. Rent has no such uniformity but is, as I have shown, a surplus social product over and above the cost of production. Mr. White's theory, therefore, rests on an erronoeus assumption. Starting from a false premise, he reasons that eliminating rent would leave the whole product above wages and interest as a reduction of the cost of production, or conversely that rent must be added to wages and interest cost, in order to arrive at the full cost of production. The reasoning is in a circle, that because rent is a factor in cost therefore it must be a part of such cost. It is an error to assume that rent could be abolished, or if eliminated that it would reduce the cost of production. Rent exists because of an indestructible natural law. Rent can therefore no more be abolished than can matter or force. Matter and force can be diverted from one relation or action to another, and in like manner rent can be diverted from private pockets into the public treasury, but natural law cannot be abolished. Imagining for the sake of argument that it could be, all production would then go to labor and capital. Wages and interest being the only remaining factors in distribution, would then absorb all production, and lacking uniformity would be the highest where social production was largest. Rent would not really be abolished, only transferred to wages and interest. How could such transference reduce cost when all was transferred leaving nothing for such reduction? Wages and interest would rise to absorb rent, but as they are factors in the cost of production such rise would increase the cost, not lessen it. Wages and interest must be reduced in order to lessen the cost. Wages and interest could not both rise to absorb rent and at the same time both fall to reduce the cost of production.

Society itself is a tremendous, perhaps the greatest factor in the production of wealth. Economists do not call it a factor because society simply increases the productive power of land, transmuting all its economic advantages into rent and land value. Rent then is a social value, arising outside of and in no way connected with the cost of production except that the rent line, which is fixed by the margin of cultivation, divides such cost from rent. The cost line is the rent line. The growth of society always tends, as wages fall, to reduce the cost of production notwithstanding a constantly increasing rent and growing land values. The land and franchise values of public service corporations, whether large or small, whether taxed or untaxed, do not add per passenger to the cost of operation of public service utilities, because rent is not a factor in the cost of production. Street railroads in cities have a larger franchise value, not because they charge a higher fare, but because they carry more passengers.

The following diagram will illustrate and mathematically demonstrate the correctness of the foregoing argument.



This figure represents wealth to be produced, its distribution, and measure of its COST of Production