Letters

Some of the letters on price in HGN (December to March) are good examples of the confusion that occurs when we fail to observe basic principles. Here is a simplified re-statement of the letters to which I refer:

Mr. Hall — price contains no element of wages or rent

Mr. Stowe — rent is always offset by the corresponding reduction of other costs due to the use of the more efficient site

Mr. Parker — a tax on rent does not increase prices

Mr. Adams — rent is always added to the price of goods

Mr. Hair — that wages are a part of price is proven by the incidence of strikes

I believe the answer is somewhere in these statements. If so, then we can't take all of them literally. We know rent and wages are paid and both are passed on to the purchaser in the price for a product. Unquestionably then, Mr. Hall does not mean literally that price contains no element of wages or rent. Mr. Stowe says rent is always offset by the corresponding reduction of other costs due to use of the more efficient site. Put these together and we can discern a subtle relationship between them. Paradoxically they seem to be saying rent and wages are there, but they are not a part of price.

We can accept the remaining statements as being intended literally. The only one which seems to describe price in a definitive manner is that of Mr. Hall. When he says price contains no element of wages or rent he is saying that regardless of the magnitude of wages or rent there will be no price if there is no demand. In short, price is a statement of value determined by the market. Mr. Stowe's contention is supported by the fact that the Fifth Avenue store does not get a higher price for its product because its rent is higher than its counterpart in the suburbs. Neither do the wages expended for a suit out of style prevent the price from falling, even below the cost of wages. The value of aging wine increases without increasing the cost of labor.

True, the producer must determine his costs, but the purpose is to stay within the price structure. And a more efficient producer might "force" the price even lower. This he does by seeking a greater share of the market, that is, by increasing the supply. The price is determined by total supply and the corresponding demand.

That price tends to relate to costs — rent, wages, etc. rising as they rise and falling as they fall — is illusory. In fact as true wages rise, prices drop; because labor becomes more productive and the per unit cost is reduced. Similarly the per unit cost of rent in a product drops where land is valuable because of the tremendous available market for sales and the corresponding economies.

If the demand for a product declines so will price, and the cost of production will tend to adjust itself to the lower value. Marginal producers, i.e., the least efficient, will abandon production, and the more efficient producers will supply the product at the lower price. Relatively low demand then determines price — not the cost of production.

Here it is not the cost of production but rather the anticipated market or demand that determines the value or price of the product and therefore the course of industry. If industry cannot adjust its costs to meet a price that will sell its product, it will not produce.

It must be understood, however, that these concepts presuppose a free market. The incidence of higher price in a market lacking freedom reflects the penalty of monopoly control in one form or another. Mr. Hair suggests that the incidence of strikes proves wages to be a part of price. If that were true high prices and high wages would be synonymous. It is a contradiction, because high prices (inflation) reduce the value of wages in terms of purchasing power. The incidence of strikes with increased price is proof that wages do not raise price. Where unions are powerful they exert the force of monopoly. Like any monopoly power, they exact a tribute from the consumer. This tribute is shared by the union members. Since the increase in pay does not come out of increase in production, obviously it cannot be a part of wages in the economic sense. The higher price follows and is paid at the expense of the wages of consumers generally.

The common fallacy that equates high wages with high prices fails to distinguish between true wages derived from productivity and spurious wages derived from monopoly. As labor becomes more productive, the per unit cost of labor drops and price similarly is reduced. True wages, the result of labor's greatest productivity, are enhanced. Here both producer and consumer gain. The former by higher wages, the latter by lower prices.

This is not intended as an argument against unions. The combination of workers to compete with the combination of employers is no less than right and fair. It is the abuse of power by either or both combinations that is wrong.

In conclusion, although wages and rent are bookkeeping items in price and in that sense can be considered as a part of price, they do not determine it, are not a part of it, and therefore cannot be included in it. The true relationship of wages and rent with price is inverse. As the former rise the latter will fall — in a free market.

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This concludes the current discussion of rent and price.

Boston, like other cities, is in a tax dilemma. As reported in The Christian Science Monitor of April 13th, this amounts to a steady increase in tax exempt properties and a drop in total taxable property valuation of more than $100 million since 1954, while during the same period the total tax exempt property valuations increased by more than $200 million.

The Boston Finance Committee states that real estate from which the city receives "virtually nothing" amounts to approximately 74 per cent as much as the city's total tax from property. From 1962 to 1963 alone, the tax exempt valuations climbed by $50 million, largely because of land taken for the Massachusetts Turnpike and expanding educational institutions. Takings for the Boston Redevelopment Authority's urban renewal projects amounted to $4,363,900 in one year. The combined assessed valuation of "so-called literary, benevolent and charitable properties" has jumped from $103 million in 1950 to $193 million.

While on the subject of The Christian Science Monitor, which often reports with singular astuteness on the land problem, be it known that a word was omitted from their story on the Whitstable experiment in England, which reversed its meaning. On page 4 of the April HGN, "The Whitstable Breakthrough," note that under land value taxation "the survey proves that neglected premises would *not* pay less in taxes than they do now."