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Free Market Solutions to Financing Transport Systems: The role of Land Values

By Fred E. Foldvary

Good evening.

I am pleased to be here to discuss free-market solutions to financing transport systems and the role of land values. The simple libertarian answer to transport systems is to make them all private. There would be private highways, streets, busses, jitneys, and other forms of transit.

Georgists should be happy with this libertarian solution. Currently, these transit systems are financed by taxes on labor, enterprise, and produced goods. Streets and transit systems make the location more desirable, and so rents and land values rise. This capitalization of public goods into land values is an implicit forced redistribution of income from wages and the profits of enterprise and returns to capital, to the owners of real estate. Worker-tenants get double billed for the transit. First, they pay higher rent to be located near the public works. Then they get taxed to finance them.

In contrast, consider a private highway financed by tolls. Since users pay a charge to use the highway, this payment creates the reverse of the upward capitalization of the highway. Having to pay a charge reduces the net benefit, and so the toll capitalizes the rent and land value back down, as landowners are not longer subsidized by the state for the highway.

Consider privatized streets. It is inconvenient to have tolls on the streets of private communities. Residential associations finance the streets from the monthly assessments paid by the community members. These assessments are economically a site rental payment. Private streets therefore follow the Georgist approach of financing public works from the rents they generate.

Large transit systems such as bus and rail transit typically have high fixed costs and low marginal costs. It costs little to carry one more rider on a train. The economically efficient way to finance such systems is marginal-cost pricing. The user is charged only the marginal cost, the cost of carrying one more rider. Often the cost is trivial, more than the cost of collecting a fee, so the transit is free.

This leaves the problem of financing the large fixed cost. Since the transit is capitalized into higher land values, it makes both economic and moral sense for the site owners to pay that added value back to the provider of the transit, rather than arbitrarily tax labor and capital.

This is in fact what private communities do. Hotels do not normally charge for the use of their elevators. The elevator is paid from the room rentals. Similarly, the fixed costs of a mass transit system are efficiently paid from the site rentals of the communities. Many residential associations in the US have their own private bus system provided gratis, paid from the member assessments.

Private communities practice Georgism because it is efficient. Government do not, because the owners of valuable commercial land have concentrated interests that induce them to lobby to avoid taxing their site values, and tax labor and enterprise instead.

Daniel Klein, my colleague at Santa Clara University, has written a book entitled Curb Rights. Klein envisions a mix of private transit, from taxis to jitneys to busses, with rights to various curb zones. Jitneys, as small vans with service levels in between that of taxis and busses, have a high marginal cost per rider and can indeed be financed by user fees, as they are in practice in several cities world-wide.

Private transit can also more effectively handle the problem of congestion. We now have the technology to charge cars electronically as they travel along a highway. The charge can vary according to how crowded the road is. Ideally, the charge should be the marginal social cost, just high enough to eliminate the congestion. This is both a charge to avoid a negative externality or social cost, and a rent for the use of a highway, where in effect the car drivers bid up the rental to the level where the traffic can flow smoothly, preventing the tragedy of the commons effect.

Street parking is optimally provided in a similar way. Parking meters can now charge the cars electronically. The fee should be just high enough so that users can normally find a parking place within a block or two. When one pays for metered street parking, one is in effect paying rent for the use of that street space.

The free-market provision of transit therefore involves user charges, tolls, congestion charges, and payments based on site rentals. Where marginal costs are high, as with taxis, the user pays the cost. Where marginal costs are low, the fixed costs are financed from site rentals.

Where transit is provided by government, the same principles should apply. While libertarians prefer that transit be provided privately, given today's governmental provision, libertarians should logically support the same type of financing used by private enterprise: the payment of site rents.

This not only returns to the government the values and rentals received, but using land rent eliminates the large excess burden now imposed by taxation. Using site rentals would also facilitate the privatization of transit, since it would be a rather simple matter to switch from the governmental collection of the site rentals and fees to the private collection by a privatized service. Using site rent for public revenue would also eliminate the rent seeking that promotes bigger government and a redistribution of wealth from workers and entrepreneurs to landowners.

Hence, libertarians should be Georgists, and Georgists should be libertarians. What I hope is that we can help further a geolibertarian synthesis, combining the geoist policy of using site rentals for public revenue with the libertarian insight that the market works better than government.