

URBAN DILEMMA (from page 5)

third builds shelter. Each group develops special knowledge and skill, they accumulate tools and machines designed for each specific job. Would far more be produced than would result if each person were independently making their own food, clothing and shelter? The denser the population, the greater the potential to sub-divide labor, to accumulate tools and machines for each facet of each production, and to produce in greater and greater economies of scale.

Imagine trying to set up an auto assembly plant in a community with less than a thousand people. You need workers at the grocery store and the gas station. You need barbers, plumbers, roofers, and doctors, and the list goes on.

As the population grows, the level of productivity grows, but, at some point transportation is hampered by mud, and the same rivers that connect one city to another also impede transportation within the economic community. At some point well water is harder to get, and human waste is harder to get rid of. At this point, does each new person increase the level of productivity, per-person, more than the last? Or, have we reached the point of diminishing returns?

Should we limit the number of people who are allowed to live within a city? By paving the streets, constructing bridges, building water and sewer systems; establishing gas & electric, police & fire departments people can live and work in multi-story dwellings and factories with greater and greater subdivisions of labor, and larger and larger economies of scale. Each worker becomes far more productive when they're working in a city.

Are wages any higher in cities? If you make a loan for use in a city do they pay you higher interest?

Workers may be paid more dollars in New York, but in terms of what you can buy, or a standard of living, do they live substantially better in New York than they do in your town? If they did, we would all move to New York, and the competition would soon bring our wages back to the common level.

We know by observation and experience that wages and the return to buildings and machinery tend to an amount below which productivity would fall. The least productive workers are assured the minimum wage. All others receive only what it takes above and beyond that for the supply of each type and level of skill and knowledge to meet the demands of the market. The return to buildings, machinery, and inventory is never more than is necessary for the supply to meet the demand.

The greater productivity that results from superior opportunities and denser populations, which is enabled by the infrastructure and public services, attaches itself to the land. That greater productivity over and above what goes to labor and capital is exactly what gives value to land

Suppose the city government dissolved. All the police and firemen went home, followed by the sewer and water and street repairmen. Off goes the street and traffic lights.

It wouldn't cost any less to build a building or bake a loaf of bread. No police, no clean water, and roads that require, at the least, a jeep. The cost of production would go up. Things produced within the city would tend to be more expensive than before. What would fall is the value of land. What is the value of land right now in Port Au Prince, where the infrastructure was destroyed?

The value of land is equal to the sum total of all the advantages, minus the disadvantages. The expenditure of public revenue, no matter how well the money is spent, does not increase the value of labor or buildings, clothing, or food. The only value that governments help to create is the value of land.

And yet, when governments like Philadelphia, go to finance public expenditures, which help to increase the value of land, they tax wages, buildings, sales, and profits. In Philadelphia, only about 4.5% of the total revenue comes directly from the value of land, which is the only thing that the government actually helped to create. However, in the process of taxing wages, sales, and buildings they indirectly tax the value of land.

Suppose you're looking for a house. You see two houses within four blocks of each other. One is within the borders of Philadelphia. The other is in the neighboring county. The houses are identical, the neighborhoods are equally safe and desirable and their owners are asking the same price. Which one will you buy? And the answer is the one in the neighboring county.

The reason a house in Philadelphia is worth less than an equally desirable one in the suburbs is because everyone knows that anyone who lives in Philadelphia will earn more than 3% less pay after the wage tax. But you can't say that the house is worth less. It costs every bit as much to produce as the one in the suburbs. What is worth less is the land, because anyone who lives on that land will lose more than 3% of their wages in taxes. Or course, if you're retired, you might be better off living in the city, all other things being equal.

The higher the sales tax, the lower the volume of sales. The lower the volume of sales the less potential profit. The lower the potential to make a profit the less valuable the location, or the value of land. It doesn't diminish the cost of the building or inventory or the wages of the employees.

The tax on buildings is pretty much straight forward. Without the buildings the income from urban land would be very little. The income from land is whatever is left after the interest on the buildings and the maintenance and management are paid for. The tax on buildings adds to the expenses and reduces the income that goes to the landowner by the same amount.

We've heard that Philadelphia is losing business, because you can't make a profit (continued on page 10)