

R77-77: Equity v. Efficiency

Demands of distrib. eq. are
more political than philosophical.

E.g. wtr, when State builds
system, everyone must have
some --- i.e. every region w. reps.

Solution: charge for wtr. &
delivery.

Same w. streets etc.

Pigou, A.C. Econ. of Welfare

pp. 150 ff., recognizes direc. of true bes. but not going to hold on forever.

"...over a wide field some part of the investment designed to improve durable instruments of production is often made by persons other than their owners.. Whenever this happens, some divergence between the trade and the social net product of this investment is liable to occur, . . ." p. 151

✓ "The gap between the two marginal net products can only be completely closed if the person who owns the land and the person who makes investments in it are the same. But this arrangement is frequently uneconomic in other ways. For, especially when the farmers are small men, they are likely, as owners, to find much difficulty in raising the capital required for those larger improvements which, under the English land-system, it is now usual for the landlord to undertake. It is beyond the scope of this volume to attempt a detailed discussion of the controversial topics thus opened up."

Thus A.C. Pigou reads himself out of the topic before fairly entering it, and no welfare economist since has had the temerity to take it up.

p. 281 Electric meters devised to record not merely the supply taken but ~~the~~ to weight the peak hours. But his cost of meters such that small houses in some districts pay a flat unmetered rate. Water rates sometimes based on rental of houses served.

✓ On broad zones of flat vs. rates he opposes. "... it confers upon them (peripheral firms) a kind of bounty at the expense of their rivals." p. 281. But he emphasizes the needless costs entailed, not the supposed inequity.

Cites QJE May 1911: 493-5, someone defends such scattering to promote compen.

But "It is not, in itself, desirable to check the formation of large productive units, since such units introduce economies. As will be argued presently, it would seem a better policy to attack the evil consequences of monopolistic action, which combination threatens, directly, rather than indirectly by attempts to discourage unification."

Here he clearly is thinking of monopoly purely in terms of control of products, and not of the land itself. But what is obviously more directly involved here is the latter. This scatter makes more difficult the combination of landholders to demand high rents, etc. [This would apply most obviously to sellers in the local markets] *It not only scatters them but also total supply.*

Note, re builders and fillers, the greater importance of rents and site to latter, at least in general thinking, and perhaps rightly so.

Not that export industries have inelastic demand for land by any means. Factories will spread out when they get cheap land, & sometimes seek cheap land so they can spread out.

Also, re builders, many of the non-land factors in location are really land underneath. E.g. higher wage rates in N.Y. (for given kind of work). Why not offset by immigration? Besides higher residential rents, grocery costs, etc.

But there is this crucial difference. Export industries have a much wider range of choice as to location. They can choose other cities. Local retail market daggon, it's here or nowhere.

Hence price discrim. The local cartel of landholders subsidizes cheap sites for export industries. This not only attracts latter but ties up sites that might compete w. existing retailers.

*Local gen'l
& gen'l
interest.*

Undue diversification is likely result, just as with tariffs, inadequate specialization. Every town discourages growth of competitors & encourages complements. (Every big industry does likewise).

Diverts resources from competing w. insiders to compete w. outsiders.

p 280, When P. speaks of bounties to permit inc pricing of rwy rates, which he prefers to price discrim., they are always to come from "guilt taxation". No mention of local landholders.

English tradition appears to follow this. --- no cognizance, as in Hotelling, of local land taxes' role.

p. 59 Even he concedes "Tax ~~on~~ ... on land values would be satisfactory in principle . . ." but doubts if wd. yield enough revenue.

p. 65 & passim. Thinks it impossible to measure cons. surplus. Only the consumer knows. Thus shows innocence of capture of c.s. by ~~the~~ land.

✓ Stress unique role of land as measure of consumer surplus & ^{trap for it,} ~~means~~ to recapture, thus making practicable the heretofore Laputan dream of m.c. pricing. Note curious isolation of theory from practice here, innocence of ec. theorists, both pro & con, relation hardly recognized not just by top flight industrial consultants but by common voters. Harkness, p. 72-73, says it cannot be sold to voters or practical regulators. But when politicians do sell idea of cheap power, call them demagogues!

✓ p. 68. Discusses extension of rail & utility lines as the related to m.c. pricing. Showing lack of appreciation that major element of decreasing cost is serving given area more intensively.

Cites Travel, Ess. of P.H.s, NY: Rinehart & Co. 1947, p. 463, m.c. pricing "is a strange idea, based on peculiar reasoning & expressed in an unfamiliar language." Junk!! They are no stuffer & have the experts who thus characterize them. In fact ... P.D.s, city streets, subsidized muni. transit, etc etc. Anyone can understand advantage of cheap power & water (e.g. LA)

I have seen many statements that better xptn has reduced value of specific locations. But that is only half the picture. It makes location less critical for some things but more so for others.

Contradiction. I have said suburban commn hastened downtown redevmt by lowering land prices. I also say higher land rents wd. hasten redevelopment.

Compensation in the welfare econ sense is a current issue in England. Planners select some areas to remain undeveloped, & others to develop. Then the winners are to pay ^{a "development charge" (or} "betterment?") & the losers get "compensation." Cluney system, has not worked very well. But is same idea.

Jan M.D. Little, A Critique of Welfare Ecs. Oxford: 1950

p. 89 Some welfare ects ignore income distribn & say any Pareto optimum is better than any non-opt. (Pareto). Little appears to be fighting this.

Thus in practise the welfare ect wd emphasize ~~the~~ allocation — his critics, distribution. But not ful. distribution so much any more as Lorenz inc. distribn.

Earlier, when ~~the~~ human effort was considered higher type, was tendency to think of higher wages^{& m.e.c.} as desirable. This kind of emphasis on distribution was ^{more} consistent w. welfare ecs, where other incomes were conceived as 'rents'.

p. 90, cites Kaldor, Ef 9-39: 549, ecst job is to Δ physical productivity, & thus aggug. real income. Despite incomparability of individual satisfaction — bes "the gainers could ^{over-}compensate the losers." (Little's phrase)
(even tho they don't, & nothing said about ~~how~~ the measures for compensation, & how they might affect the hoped for Δ output).

Re Hotelling pricing, Mr. Coase is my bête noir, Economica, 8-46. (Little, p. 182) Coase argues vs. Hotelling that compensation cannot be paid bes gainers are big users of public services & is no way to spot them. ^{Little agrees, p. 182} Coase also assumes previous ideal ~~situation~~ inc. distrib., Little chides.

I point out: a, vary rates along distrib net; b, Heavy users are central bands, can spot & tax.

Little, cont.

p. 182 Coase argues can't redistribute inc. from consumers of deer-cost goods to others. Little, n., adds "a lump-sum tax scheme ~~cd.~~ theoretically remove this difficulty. But, then, lump-sum taxes are neither ordinary, nor practical." Evidently he is unaware of Lvt.

What has p.v. pricing to do w. land? One thing, the franchise is land. L's value is often added to get AC. a good reason for preferring MC.

Little, pp. 186-87

Discussing literature on welfare ees & m.c. pricing. Cites Lewis, Coase, Henderson, & T. Wilson.

But all of these seem to be reasoning in the abstract to such a high degree that they do not see the decreasing cost service in space. This shows up by their finding great difficulties in collecting ~~producer~~ consumer surplus. They consider lump sums, pure monopoly, p. discrim. — but never b.v.t.

Little is vs. m.c. pricing.

MC pricing is part of "welfare ees". Little & c. emphasize that distribution effects shd. be considered too. Thus my union of "welfare" & "dist" ees is easy, & somewhat accepted.

W.A. Lewis says man ought to get his mp. This view has "dropped out of fashion" ~~recently~~ recently. p 183 Most welfare theorists say a man shd. be paid his mp, but then distn by taxation can be made anything one wants. (This is where H.G. hit J.S. Mill for)

W.A. Lewis favors using p. discrim. to get c.s. & achieve m.c. price.

Recognizes fluctuating prices as a nuisance, so wd. have p = b.v.m.c. not short. But I strike for middle ground. 76 25 yr life

is what facilitating bus, ~~st~~ st ~~rm~~ ^{rm} changes ydy & = ~~lrm~~ ^{lrm} only occasionally, cd change annually, or seasonally, etc.

Depending on what it is. Some prices, e.g. commodities, change from minute to minute, & some utility services id. do same.

Or go higher in peaking periods, on regular daily schedule, very workable & rational. & useful — wd. cut peaks 'way down, lower rates by reducing needed capacity.

We manage to build excess capacity into our lines, but for the wrong reason. Bus rates do not reflect mc of peaking, we build for that. When we should have a real disincentive.

(But maybe rates = a.c. one sec., bus peaking means Δ costs really, hi mc. ??)

Hotelling & Lerner are taken as arch-proponents of AC pricing. Lerner with "The Rule". (try also Lange & Taylor on this)

Little, p. 191, says museums, parks, roads, should not be free because then "there is no criterion for when to build more." .. Thus showing his ~~complete~~ innocence of the relation of amenities to surrounding l.v.

MC of using roads is a matter of occupying space more than of injuring surface. Weighing trucks reflects ability of men to conceive of m.c. as wear & tear better than as occupancy of space.

Actually congestion is the major cost by far, and this suggests it is the space cost of roads that is major. Esp. downtown, where space is major cost of expanding roads. In the country l.v. may be rather the paving cost. Even here, m.c. of trucks is their occupancy of limited paved surface, more than damage to pavement ... (user cost).

User cost concept of Keynes divides all costs into user or factor costs. Congestion cost is not mentioned, yet it is basis of all srmc Δg . It is a cost that is no one's income? Not just space, but any limited input may be overused, hence Δg srmc. Is grossly disproportion of inputs, old hat.

Which bottleneck comes first — exptn among parts of city, 80
internal, or exptn between city & outside?

Argument vs. lvt is land is widely held, so if tax it are taxing same people as ~~same~~ wages, so is no =n distrib. effect. I doubt, but, if so, then incentive effect is confirmed, for is no inc. effect on most people by shifting. Is just qn. are you going to pay them for working or for landhold'g.

Chide gently. Re lvt. few props hv. received such offhand treatment by econs. ^{specious} Arguments accepted vs. it must make individ blush if ever challenged. Snide sneers. No credit to profn. Bn. open season on single taxers, most outlandish & indefensible props gone unchallenged. Reasons don't know, but ^{clearly} largely extra-rational. No credit to profn. & those who merely looked on frightened by laughter, jeering. Again no credit.

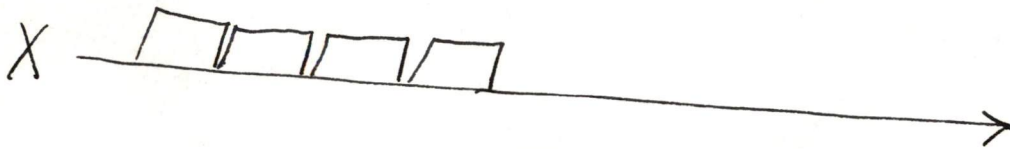
Re macro supply elast. Must forever remain conjectural whether curve vert. for labor & cap. Is world of diff. v. lands is just no doubt.

W. pr. pur. cos., another name
for distrib. equity is
"public relations."

"Pareto's law" is $\Delta N \rightarrow -\Delta LCR$. Wantrup, p. 307. ^{"Concept used on criteria for the law"}

✓ Most discussion in "new welfare economics" i.e. post-Pareto, deals w.
how to compensate the losses.

Wantrup says not practical apply Pareto criterion w. compensation.
I say but does it.



A relation of ~~certa~~
allow & distr.

Good allow requires
certainty of prop'ty rts.

That in turn requires
wide distrib'n of prop'ty

Why diff. i.r.?

Size of one's assets relative to mgmt capac.

When assets relatively small, hi mp imputable. Stretch their complementarity by hi turnover invnts.

As assets grow, mgmt capac. strained, mp of assets falls, of mgmt rises. To relieve strain, invest in slow turnover assets.

Indis. in time.

Time-rate of turnover of investment may be distinguishable from % rate of return.

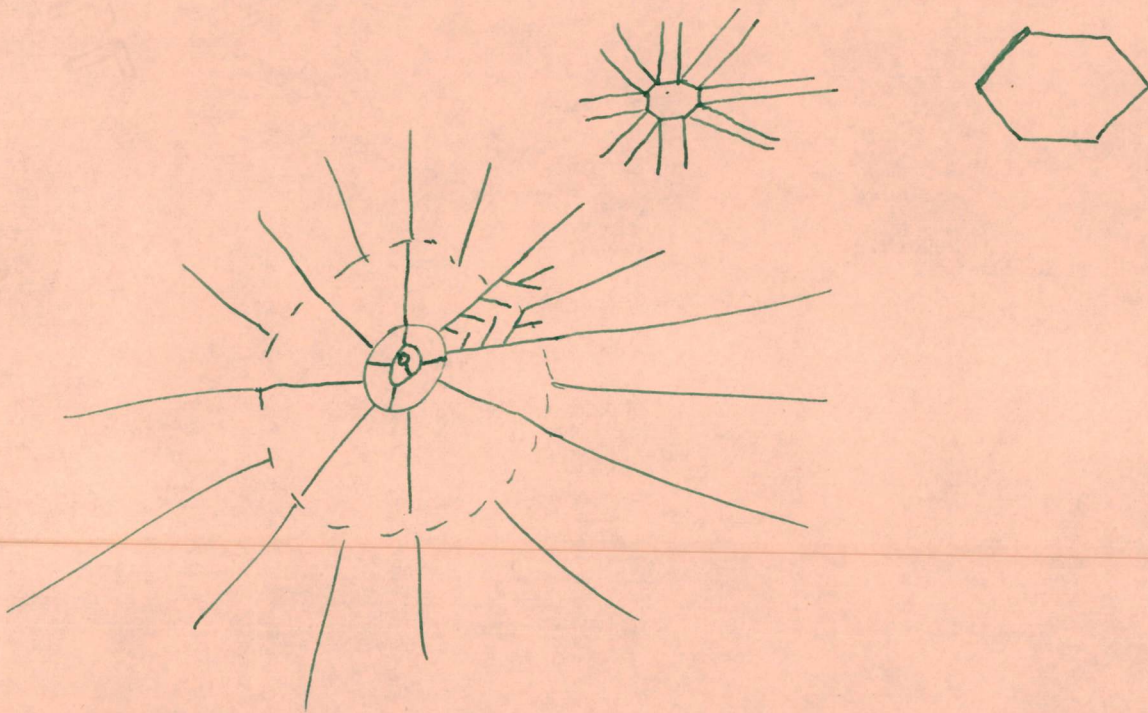
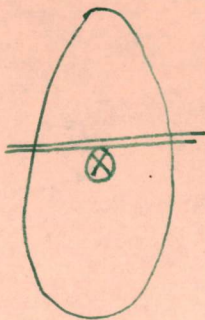
assuming it is, some will prefer quick pay-out, others slow.

depending on relation of assets to mgmt capacity.

This may make my case better than diff. i.r. approach. Closely related + ho. Can earn higher yields if have surplus mgmt capacity.

The grid epitomizes the impartial xptn policy that ~~sub~~ sacrifices
effic. to distrib. equity. No central tendency, no differentiation of
service, etc. Rural roads, city streets.

Dendrites wd. be more ecl., from a central focus.



Oval with thruway for e-w linkage.