



Fallacy of Free Rent

By [Dr. Mason Gaffney]

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Fallacy of Free Rent

The input whose social cost is most likely to be invisible to the unwary is land. There are several reasons for this: it has no cost of production; it doesn't wear out; it passes down from prior generations without visible cost; it does not pass through the market as often as things that are produced and must be replaced; it is often hard to divide or assemble or replot; its use is subject to social controls; its ownership is often divided; etc. Whatever the reasons, here are some of the resulting fallacies.

a. Fallacy that timber is financially mature when its growth rate is equal to the interest rate ($F'/F = i$). (This means the growth pays interest, but not rent. In fairness, note there is another fallacy under which tree-growth must pay rent, but not interest!)

b. Dams should be sized so as to max the "benefit/cost ratio." (In practice, the value of the damsite, reservoir site, and the water source, however scarce, are omitted from "cost"). This has resulted in some "pygmy dams" on certain key sites - dams apparently calculated more to seize and hold the sites and power drops than to use them fully. (As with timber, Case "a", there is another fallacy under which planners ignore interest and maximize return to the damsite - this results in oversized dams.)

c. Parking meter fees must be limited to the cost of paying for the meters and meter-maids.

d. Tolls on the Golden Gate Bridge must be set no higher than enough to pay debt service on outstanding bonds.

e. Exxon is more efficient than mom and pop farmers in the hills because Exxon has more sales per worker.

f. It is a senseless waste to tear down a sound structure when it could provide more years of service.

g. U.S. farmers are more efficient than farmers in Asia because we use bigger machines and produce more per worker.

h. My ancestral lands are sacred to me and must never be opened to the public for commerce, recreation, subdivision - or anything.

i. Cemeteries must never be disturbed.

j. Experimental Plots cost UCR nothing because the land was given to the University.

k. Let the next class wait: I need more time to finish my exam.

l. A farmer should buy more land so he can spread the overhead of his capital over more acres, thus lowering his FC per acre.

m. Autos are more efficient than mass transit because you can drive directly to your destination.

n. The cost of water in arid lands is just the cost of the work and capital required to divert, store, and deliver it. It should be priced no higher than enough to return those costs.

Add a few examples of your own to this list.