# Location Monopoly Value


A location monopoly is an enterprise where the customer's opportunity cost of transportation/shipping to/from another provider of the same goods or services exceeds the difference between the monopoly price and a competitor's price.

It is common to pay $1.75 for a can of soda in an apartment's vending room, rather than walk one block to the convenience store, and pay $1.00 or three blocks to the grocery store and pay $0.40. Both the vending machine and convenience store are location monopolies. But so too is the grocery store, if one can travel 15 miles to a high-discount outlet and get the same can of soda for $0.25.

Each customer has a different opportunity cost of transportation, including the value of their time. The pricing power of location monopoly is the weighted percentage of customers whose opportunity cost of transportation to another supplier exceeds the difference between the monopoly price and the competitor's price.

The definition of location monopoly can be expanded. For enterprises that only support a limited number of customers at a time, there will be multiple suppliers of the good or service, often clustered at the same location, to meet the average demand.

"Auto row" is a classic example. A group of three used car lots would together be a location monopoly. Despite the formal law, it is a successful "location collusion". Customers tend to distribute themselves equally or according to well-known patterns, customer naivete is a source of profit, and payoffs from competition are poor. Thus, there is no incentive to trigger a price war. The opportunity cost of driving to another set of three lots 20 miles away is not an option.

Suppose a fourth auto dealership joined "auto row", causing supply on auto row to exceed demand. Sales people will be idle at times. There will be difficulty meeting costs. Cooperation between the dealers will break down. Cutthroat competition will continue until one of the dealers is driven bankrupt.

But this is mutually assured destruction. The survivors emerge beaten and bruised. Reestablishing trust between the surviving dealers will be difficult. Some pricing power will be forever lost.

Most economics textbooks say this is a good thing; that the consumer benefits from competition. Consider if the price of a head of lettuce were a few cents higher, the farm workers would be paid a living wage. Raising the price of vegetables [by 4% would yield a 40% increase in farmworker salaries](). But that isn't how an economy works.

If the farmer has no pricing power, it is impossible for them to raise prices at all, let alone give the farmworkers a raise. Pure competition drives economic profit to zero and the lowest skilled workers wages to subsistence. Other wages move in the same direction – down. What worker would not gladly take a 40% raise in pay in exchange for a 4% increase in the price of goods?

Luckily for workers, almost all firms have achieved high pricing power through location monopoly. Examples include the one dry cleaners on a busy city block; the one barber in a small town; the one convenience store in a large apartment building; the one fancy restaurant in a rural county; or the one luxury smartphone maker in the world. Two grocery stores in a small town might position themselves to maximize their total pricing power.

The treble is a new form of competition that preserves pricing power. Instead of the fourth auto dealership setting up shop on auto row, the newcomer trebles the weakest link; that is the auto dealership paying the lowest ground rent for the lot size desired.

The trebler must pay a 33% premium over cost for the cars currently on the lot (the VIP maintains a record of all such transactions for 100 years), although older purchases depreciate due to a more outdated model year. The new dealer opens for business with an inventory and a still choice location, even if 33% over cost prevents profit on the initial inventory.

When a new technology replaces an old one, trebling a company using the old paradigm is not always the best solution (although it is the most merciful). This form of competition, called creative destruction [Schumpeter 1942], is beneficial to the general welfare.

The response to creative destruction today is rather tragic. Primarily, the outcome is urban blight. Factories using the old paradigm close, causing unemployment and a population exit from the city. This reduces demand at businesses, formerly with pricing power, that are no longer able to meet costs, close down, and shift more population out of the city.

New development can be encouraged if property taxes are shifted from structures to land. That was the case with Pittsburgh when it lost the steel industry, and was reborn as a center of technology.

Unfortunately, the opposite is true for Detroit, which continues to languish, where the high-percentage tax on decrepit structures would translate into an obscene tax on new development. Although the land tax is very useful for countering blight, it has serious moral and practical flaws as a single tax to bring about a just Georgist economy.

How does land-based capitalism react to creative destruction? At the first sign of a factory closing, all homeowners and businesses paying ground rent allow their rent to fall by the full 67% annually. This drop in costs not only serves to keep the population in place, but gives the factory needed time to adapt, or have a more orderly closing.

Losing a job is an inconvenience, not a crisis. All are provided with nutritious meals, warm and safe shelter, quality medical care, and unlimited free education by the Earth Dividend.

A closing factory is a good time to go back to school and learn new skills. Likely, the old factory will be trebled (rather cheaply) by a collective that will use whatever it can salvage to start an entirely new venture.

## Location Monopoly, Taxes, and Rent

There are no taxes in land-based capitalism, although a 2/3 plurality of the people in a jurisdiction have the right to raise additional revenue over the distributions within certain constitutional constraints. Still, it is helpful to examine the effect of taxes today to further understand the future voluntary payment of ground rent.

It is impossible to raise revenue by taxing economic profits in a fully competitive economy, because profits are very low (or zero) in pure competition. Pure competition is a myth, but if the market price is fixed by competition, then taxing profits cuts into production.

Governments today raise revenue through a sales tax on each item sold. The referenced example compares the economics of a 10% sales tax on mythical purely competitive companies with a tax on monopoly profits. It shows that while a sales tax leads to a decrease in production, a tax on monopoly profits does not.

Of course, land-based capitalism has no taxes. Location monopolies protect their profits (from hostile takeover) by paying a ground rent high enough to make trebling a poor business decision. With a 33% premium on structures, machines, inputs, and inventory, a treble does no harm, should it occur.

Voluntarily paid ground rents on location monopoly profits provide all of society with public goods and services as well as the basic necessities of life.