

Free lunch – calling last orders

In this third and concluding part of his series on privilege, **Ole Lefmann** considers the means and consequences of eliminating the bad effects of privilege.

The story so far...

All sorts of privileges are allowed in Western societies. They can be categorised broadly as privileges granted because of the need for regulation of certain activities, so-called privileges that in fact are rewards for service and should be honoured by wages, and 'intellectual property rights'. Privileges can have real value, which people are willing to pay for. Those values are an element of what economists call economic rent (L&L spring 2007). Privileges can have good and bad effects. The bad effects of privilege must be eliminated. One of the important good effects of privilege is the protection of trade freed from monopolies and the bad effects of privilege (L&L Autumn 2007).

NATURE PROVIDES human beings with the necessities of life and all the raw material for the production of goods or the provision of services to meet human demands; all is provided to us, in the raw, as a free gift. But access to that gift is not free. Powerful holders of exclusive rights, or holders protected by power, claim their price for letting access. Those who pay the most to those privilege holders are allowed to use the gifts of nature.

Other privilege holders – producers whom power grants exclusive rights to do what is prohibited for people in general – claim extra profits from prices higher than those they could have claimed for their products or services had they not held their privileges.

In both cases, every day, privilege holders collect a 'free lunch'. The widespread notion that 'there's no such thing as a free lunch' is a misapprehension. The rules in force in society today ensure that free lunches are indeed served up, but reserved for privilege holders only. Such an outcome can have extremely bad effects on the lives of other citizens, not to say on society as a whole: but we need not tolerate these bad effects: they can be eliminated in one

or in a combination of the following ways.

The most radical approach to eliminating the bad effects of a privilege is the simple abolition of the privilege itself. This approach is, in principle, in fact the preferred course: it should be the favoured conclusion following an appropriate examination and assessment. However, although some privileges that attract a value may have bad effects that we want to eliminate, a number of privileges may also have good effects that, in fact, we want to take advantage of.

So then our problem becomes – how might society rid itself of the bad effects of certain privileges that also have effects which we consider good and which we want to take advantage of? For that purpose there are two possibilities available.

We can 'socialise' certain privileges – that is to say nationalise them: render them public functions. The idea of socialisation may be unattractive to some – for instance those who consider public administration slow, ineffective, rigid, or corrupt. But such problems also occur in the private sector. The risk of inefficiency, rigidity, and corruption is latent in all big administrations; and it is true that it is seriously increased in organisations that work without competition or with restricted competition, such as public organisations and others whose operation is based on monopolies or privileges.

The excess profits of monopolies and privileges go to the owners of those monopolies and privileges. In the case of public ownership the excess profit goes into the public coffers, and this reduces the need for taxes. In the case of private ownership the excess profit goes to the private owners. With the rules in force today these may have bad effects on private as well as national economies, and on the wider life of society. (These bad effects, as well as the good, were discussed in detail in the second part of this series in L&L 1219).

These bad effects of privilege are the scourge of today's society. But they can be eliminated quite simply, by the changing of a few rules. When these changes are made it will be found to be good advice to accept many of the private privileges that have good effects. The particular

provisions which are required to eliminate the bad effects of privilege are:

- the public collection of the rental values of all tolerated private privileges. The rental values of privileges means the annual excess profits derived from non-landed privileges, or the amounts users are willing to pay to privilege holders for the rights to access the advantages of nature and society – that is, the rental values of landed privileges. The bad effects of those rental values of privilege, which presently become concentrated among the few, will end when those rental values – created by the public – are paid to the public purse,

and

- the application of the revenue raised for the benefit of all citizens equally.

The public annual collection of the rental values of privileges is the most important step to take; but it is not enough to abolish the bad effects of the rental values of privileges and allow the good effects to flourish: the revenue has to benefit all citizens as equally as possible. And for that purpose we may look at two different ways of using it:

- by financing public undertakings that will benefit all citizens,

or

- by financing the distribution of equal shares to all citizens.

Looking at these two ways from an ideological point of view, the first one may be called the socialistic way. It presupposes the government's ability to decide which of the citizens' demands shall be fulfilled before other demands, and when, where, how and by whom it shall be fulfilled. The second of the two ways allows individual citizens to decide for themselves which of their wishes shall be fulfilled before other demands, and when, where, how and by whom it shall be fulfilled. This might be called the libertarian way. Each way will have its supporters in today's society.

The first way will certainly appeal to politicians and civic servants clamoring for the limited resources available for the financing of public services and infrastructure. Their concerns are to achieve the proper funding of current projects presently under-financed, and the funding of new projects that

cannot presently be realised because of lack of finance.

It seems that today, in the first decade of the 21st century, 'financing new public projects by land value taxation', for instance, is likely to be a more successful argument for the implementation of the policy than the idea of 'replacing other taxes by land value taxation', which attracted so much attention at the beginning of the 20th century.

The second way of ensuring revenue benefits all citizens as equally as possible might have less partisan appeal. During recent decades this alternative policy proposal has attracted growing interest. It coincides with the still-more widespread idea of a 'citizen's dividend' – encouraged by the growing sense that each individual of the community has a moral right to a share of the huge value of the community. This is the same sense that accepts the assertion that all human beings have equal rights to nature and to the values of it.

To eliminate the bad effects of privilege, where might support for these policy proposals come from? Different groups which urge the establishment of a 'Citizen's Dividend' have differing ideas about to whom and how much should be paid out, and about the important question of which source(s) might finance the project. However the following formulation might have broad appeal: 'equal dividends to all citizens funded by the 'free lunches' provided by nature and society, collected and distributed by the public'.

Further support for this might be gathered when considered as a green policy initiative. A green perspective should fit comfortably around the equal distribution of the rental values of privilege. The public revenue slogan 'pay for what you take – not for what you make' fits well with a green sensibility. In addition, those concerned with the resolution of conflict within and between societies should appreciate that an equal distribution of common wealth will support a more friendly and more harmonious society. Tax reformers – of the left and right – may prefer public collection of the values of visible land and registered privileges instead of the traditional assessment and taxation of private values (such as moveable assets or earned income) that can easily be hidden from or taken beyond the grasp of the taxman.

So we see that the public collection of the value of nature and society, and the use of the revenue for the betterment of all citizens on an equal footing, has supporters in groups and individuals of very different outlooks and points of view. This broad grouping of supporters might provide a perfect base for cooperation. But it also raises a problem that cannot be ignored. If the use of the revenue, in

broad terms, is not agreed by all campaigners, it may cause problems.

It may be astute, in order to secure greatest public support for change, to consider as a point of strategy that all revenue raised by the proposal should be hypothecated – earmarked – into two divisions, in which one half shall finance public undertakings, and the other finance the distribution of an equal Citizen's Dividend paid to all citizens.

Public information and education would be essential. It would be up to campaigners to inform the citizens of the advantages of the proposal. People in general are unaware of the causes that provide them with good economic conditions.

Proponents of the reform and campaigners will have to inform the general public about the ongoing implementation of the change: namely, that public expenses will increasingly be financed by the values of nature and society, and that the Citizen's Dividend will increase year by year as the market value of privileges rise. It is important that citizens come to understand and keep in mind that they will receive their Citizen's Dividend not as a social security payment but as a citizen's universal and equal right to a share of the value of nature and society.

We should ask how much revenue might be collectable from the free lunches provided by nature and society? Privileges 'eat' from each other. As one privilege is able to take to itself more value, the others can get less; with one exception. Landowners are not able to take anything from other privilege holders: they can scoff of the free lunches only what is left at the table by those others. Both taxes and privilege profits are legal claims – supported by government power. They reduce the spending power that people could and would otherwise use to pay to access their preferred locations – whether to landlords or as a purchase price for their homes and workplaces.

In today's developed societies taxes have increased to a very high portion of the economy. Privileges have increased in number as well as in their economic capacity. The size of the rent of land (the free lunches provided by nature and society) left for the landowners to pick up therefore constitutes a smaller percentage of the gross national product than in the days of the classical economists. The classical economists explained that the results of production would be shared between labourers, investors and landowners only.

Today, landowners have to accept that rent of land is reduced to what remains when other powerful privilege-holders have captured taxes and excess profits from the market.

Conversely, this relation between the 'rent of land' and the proceeds taken by others, also means that the rent of land will increase when privilege-increased prices are eliminated. The increased rent of land means a higher revenue from land value taxation, and more funding for financing public undertakings and the universal Citizen's Dividend. That will reduce the need for social security benefit, which also will reduce the demand for taxes.

Reduced taxes – except land value taxation – will increase the citizens' private spending power, propelling the virtuous cycle onward; all without increasing inflation. The amount of expected revenue from the public collection of the rental value of privileges would prove sufficient. It would be enough to pay for both new generally-needed public undertakings (which aggregate more rental values than spent on investments) and a Citizen's Dividend; *and*, further, the scheme would be capable of replacing those 'old taxes' and aggregate in quantum at least the same rental values as the reduced taxes.

So, the size of the 'free lunches' from nature and society is sufficient for society's needs. The public collection of the value of those free lunches is self-funding; and therefore inexhaustible so long as revenue is distributed equally to all citizens – or in other ways used to benefit all citizens on an equal footing. **L&L**

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(On the following pages, LL Blake takes up the question of privilege from a different perspective.)

