

fresh thinking

The rent of privileges

A privilege is the granting by government of an advantage to a third party. Privileges take many forms: concessions, authorisations, licences, patents, titles, exclusive rights and monopolies. Such grants enjoy the protection of government, without which privileges cannot exist. The privilege holder may call upon society's physical power of enforcement for assistance in the maintenance of their privilege.

Privileges have value. They provide advantages to those who hold the privilege. Those advantages could be considered to have a rental value in the same way as does the exclusive right to the use of land. The annual value of the yielded advantages could be called the market-determined rent of the privilege. The capitalised amount of the rent of the privilege would determine its market price.

One category of privileges consists of those given because of the need for regulation of certain activities. These include exclusive rights to the use of – or trade in – natural resources, unique constructions, dangerous products and services, the supply and circulation of money, and the exertion of physical power.

The existence of such privileges may benefit some people. But at the same time they restrict other people's activities. Because of this, most people dislike other people's privileges; whereas they would like to enjoy privileges that benefit their own interests. We can see that in competition, privileges give their holders advantages over the non-privilege holders.

Privileges of this sort should be allowed to exist only if they are subject to specified conditions. The principal of these conditions should be payment to the public purse of the annual market-determined rent of the privilege: but there should be others. Privileges which are impractical to rent might continue to exist but only as public monopolies.

Another category of arrangements might be called privileges, but are in fact rewards. These privileges might be given in return for services to the community, and should be looked upon as wages. In most existing tax systems these

In the first of a series of articles, Ole Lefman sets out to identify some of the privileges commonly found in Western societies, and considers what we should do about them

to exert physical power in the social realm

such as

- police and guard forces (law & order, civil emergency)
- emergency preparedness for natural catastrophes (fire, storm, earthquake, flooding).

to carry out works involving public hazard

such as

- utility installations (gas, electricity, water)
- erecting, modifying and taking down large buildings, structures and scaffoldings.

privileges burden the taxpayer; but they should be defrayed by the revenue of publicly collected rent of land and other privileges. Governments may feel tempted to give to veterans, public servants, or others, rewards for their services. Such practices save the expenses of the government in power; but it burdens incoming governments and should be abandoned.

Privileges should be granted only for a short period. They should never endure longer than the lifetime of the original privilege holder. If they are transferred to another person they should always be conditional on the payment to the community of the rent.

In the case that the government wants to terminate a recently granted privilege before the day fixed for termination, full compensation for the loss of due benefits should be paid (but never beyond the lifetime of the original holder of the privilege), in the same way as any other public expropriation.

A further category of privileges is intellectual property rights. These are intended to protect the creator's rights to ideas. They protect the rights of inventors, composers, writers, designers, artists, and others to the value of their works – their inventions, compositions, writing, designs, art, and so on. They might be looked upon as rewards for bringing into existence their inventions. Intellectual property rights should not be given simply for being the first to apply for a patent over established knowledge, practice or use.

Privileges should be granted only to individuals; they should not be given to 'legal persons' – companies, institutions or other organisations or entities.

All privileges – including the exclusive rights to use a site of land – share the following features:

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SOME EVERYDAY PRIVILEGES

a privilege can grant
exclusive rights

to use natural resources

such as

- land (for residence, leisure, recreation, comfort, commercial, or any other use)
- areas at and below sea level (fishing, farming and hunting places, and resource extraction areas)
- streaming, floating and falling water (for power and irrigation, and for transport of people and goods)
- orbital space positions (for research, and for collection or transmission of information)
- electronic waves (for transmission of information)
- scarce natural resources from soil, sea or space (asteroid occurrences).

to trade in certain products

such as

- nuclear products
- drugs, medicine, narcotics
- poison, pesticides and fertilizers
- explosives and weapons.

to use a unique construction on public domain that cannot or will not be duplicated and therefore functions economically in the way scarce natural occurrences do

such as

- cables, wires, pipes and conduits passing through public domain (for instance for the transport of water, fuel, energy or information)
- roads, rails, tracks, bridges, tunnels, cables, and canals (for public transport of people and goods)
- watermills, locks, dams, and water storage facilities
- big power plants (hydro, nuclear, fossil fuel, renewables)
- transportation terminals and interchanges (airports, stations)
- air corridors and sea lanes (for transport of people and goods).

to trade in certain services

such as

- commercial transport of passengers
- medical and chiropractic treatment
- lotteries, casinos, betting
- public serving of intoxicating drinks and drugs
- cremation and burying of corpses
- exhaustion, letting out, or burying of polluting materials
- disposal and incineration of refuse and waste materials
- coining, printing and emission of money, and putting money into circulation.

to use up, pollute or destroy natural resources

such as

- deposits of raw materials, soil, air, water, silence, sunshine, darkness.

- they cannot exist without the government's acceptance and protection.
- they take what they are able to take but cannot take more than the market determines – less is left as wages and interest to the active producers.
- they 'eat from each other': what one takes more of, the others are left with less of. When the volume of privileges grows, the rent the landowners are able to pick up shrinks.

Titles to land usually provide for the landholder's values-in-use and values-in-exchange. Other exclusive rights – beyond exclusive rights to use landed properties – usually provide for their holders another advantage: the ability to claim extra profits – the privilege profits – raising the price they would have been able to charge for the goods or services they deliver to their customers, had they not held the privilege.

The classical economists pointed out that the returns of all productive activity is shared as the wages to labour, the interest (of productive investments) to capital, and the rent of land. The rent of privileges is an element of the last of these. **L&L**

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