Principles and Practices for Just, Prosperous, and Environmentally Harmonious Societies (With Special Reference to Eastern Europe)

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Introduction

Economic justice, and the prosperity and environmental harmony that accompany economic justice, are natural extensions of principles of individual liberty, equal opportunity, and respect for the rights of others.

Each person must be free to shape his or her own life. No one owns another person. Therefore each person owns the value that arises from his or her efforts. A just society reflects this in permitting its citizens to keep what they produce and to trade freely with whomever they choose. But human efforts must be complemented with land and resources to be productive, and these occur as gifts of nature in limited amounts. Therefore a just society requires anyone who uses land and resources disproportionately to compensate the rest of society for the disproportionate use. This is accomplished by social collection of the rent of land and natural resources, and by a system of charges for any privileges that are assigned by governments and for activities that have environmentally harmful effects.

Individual liberty is paramount. Individual liberty concerns the right of all persons to choose the goals of their lives and the means by which they pursue these goals, as long as they do not interfere with the lives of others. The components of individual liberty that come first to mind are the rights enshrined in many constitutions: freedom of speech, freedom of the press, freedom of assembly, freedom of religion. The universal understanding that these rights are to be respected is reflected in the fact that they are proclaimed even in the constitutions of nations that have not actually permitted their citizens to enjoy them. But the full enjoyment of these rights requires that they be complemented with other rights. To fully exercise freedom of speech and of assembly, one most be free to travel to the places where one finds the persons to whom one would speak, and with whom one would assemble. To exercise freedom of the press, one must be able to obtain the materials with which printed matter can be produced. Thus a free society allows its citizens to travel where they wish, and to trade with whom they wish to trade.

Free Trade

At its root, trade is a form of human cooperation. Freedom to trade is a variation on the theme of freedom of assembly: People get together to achieve their mutual purposes. While it may be necessary to restrict some activities because of harmful consequences to others, a free society permits it citizens to produce what they choose and to trade whatever they have lawfully produced for any lawful product that others wish to offer in exchange.

The most common reason for efforts to restrict trade (whether or not this is made explicit) is that if people are free to trade with whomever they choose, they will not choose to buy from certain politically powerful sellers. A prohibition on trade with other sellers improves the market for the pollitically powerful ones. But it is not acceptable, in a free society, to treat citizens as obliged, without their consent, to provide a market for specified sellers. The basic equality of citizens requires that each person be permitted to choose who will be supported by his or her purchases.

A free society does not claim to own its citizens. They may depart, if they wish, for any other society that will accept them. They may travel where they wish in their own society, and choose where within their society they will reside. They may choose the occupations in which they seek to earn their living.

Sound Currency

Freedom to trade with whom one chooses requires that people have access to a medium of exchange, a form of currency, that will be desired by others who wish to trade. It has become nearly universal for nations to issue currency. This, however, is not an obligation of nations. Rather, it is a convenience for their citizens. Furthermore, the possibility of being the sole issuer of currency is not used by a free society as an opportunity to extract resources from citizens, by requiring them to accept paper that is worth less and less for the things they produce. The best guarantee that a government will not abuse its citizens with an inadequate monetary system is a recognition of the right of citizens to hold and employ any medium of exchange that they choose. If citizens are not restricted, they will find something attractive to use as currency when their own government does not provide an adequate currency. In today's world it would probably be German deutchmarks, Swiss francs, Japanese yen, or possibly U.S. dollars, although dollars have not maintained their value in recent decades as well as the other currencies mentioned.

The government of a free society should not attempt to issue a currency unless there is reason to believe that the currency will be more attractive to citizens than any alternative currency. People may wish to use the currency of their own nation out of a sense of loyalty, even if it is somewhat less stable in its value than alternative, but the tolerance of citizens for declines in the value of currency can be expected to be limited. Thus it is important that any currency that is issued have a stable value.

This is not easy to achieve. Smaller nations commonly define the value of their currencies in terms of the currencies of major trading countries. But this leaves a nation subject to fluctuations in the value of its currency from fluctuations in the value of the foreign currency in which their currency is defined. It also means that they must accumulate and maintain a reserve of the foreign currency. If excessive currency is issued, people ask for foreign currency at rates greater than their government can provide it. Then governments respond either by attempting to restrict trade, which is an unjustifiable restriction on individual liberty, or by redefining the value of their currency, thereby breaking faith with their citizens regarding the value of currency.

A government that serves its citizens well, if it issues a currency at all, will regulate the amount of currency in circulation so as to keep its value stable. Many economists have recommended that this be accomplished by having the supply of currency grow at some fixed rate. However, such a rule makes no allowance for the possibility that the citizens of other countries might begin to find the currency attractive (as people throughout Eastern Europe have found deutschmarks attractive in recent years). Such an event will cause prices to fall if the growth of the supply of currency is fixed. And if the foreign citizens ever change their minds and decide to hold some other asset, prices will rise. A fixed rate of growth is not the answer to the problem of stabilizing the value of currency.

There was a time when nations sought to guarantee the value of their currencies by promising to provide a specified amount of gold in exchange for currency whenever requested. But the value of gold relative to other commodities has been highly unpredictable in recent years. Furthermore, as with defining one's own currency in terms of a foreign currency, a reserve must be maintained, and it is difficult to ensure that the reserve is not depleted.

A more sensible way of guaranteeing the value of currency is by promising to exchange currency for one or more commodities that are readily standardized, produced domestically, and tend to fluctuate in price in line with the overall level of prices. Then if people want to redeem currency it is not necessary to obtain anything from abroad, but only to produce more domestically. An examination of the history of prices in the U.S. suggests that one commodity that is readily standardized, produced everywhere, and has a price that closely follows the general level of prices is cement. Cement is readily standardized because it is made of from a few common minerals. It is made in many places because it is needed to make concrete and mortar, and it has a high transportation cost relative to its production cost. And its price has followed the general price level more closely over the last few decades than any of about 30 other commodities that were examined.

A just monetary system that was defined in terms of cement would treat all citizens as equal participants in the money-issuing process. Suppose for example that the currency unit, the "cem", is defined to have the value of 1 kilogram of cement. Then it would be understood that anyone could obtain 100 cems (minus, say, 1% for handling costs) by delivering 100 kilogram of cement to the currency office. And anyone who wished to redeem cems could get 100 kilograms of cement for 101 cems. If all citizens are regarded as equal participants in the currency issuing process, then when cement is delivered for cems, the cement will be sold and the proceeds divided equally among the population. The increase in currency in circulation will tend to increase prices until producers of cement find it more attractive to sell their product in the general market than to turn it over to the currency office.

When cems are redeemed for cement, the population will be sent bills for their shares of the money needed to buy cement. When the cement is turned over to the person redeeming currency, the currency that is redeemed will be withdrawn from circulation, putting downward pressure on prices until it is cheaper to buy cement in the market than to obtain it by redeeming currency. In this way the price level will be stabilized.

As with any currency system, this system must deal with the possibility that there will be no cement available when redemption of currency is requested. The way that is handled in this system is by specifying a reasonable interest rate (say, 1% per month) that will be paid to redeemers if time is required to raise the money from citizens or to obtain delivery from cement producers. But because no one would wish to hoard cement, or to ship it out of the country, there is virtually no prospect of vast redemptions suddenly being requested.

There are two innovative features in this approach to currency. First, treating the population as equal partners in the currency-issuing process means that issuing currency is not a way for the government to extract resources from an exploited citizenry. Second, defining money in terms of a widely produced, standardized commodity with a high shipping cost makes it possible to redeem from production rather than reserves, so that there is no need for the holding of sterile reserves.

Social Collection of the Rent of Land and Natural Resources

Social collection of the rent of land and natural resources serves three purposes. First, it guarantees that no one dispossesses his or her fellow citizens by appropriating a disproportionate share of the providence of nature. Second, it provides revenue with which governments can pay for socially valuable activities. Third, it ensures that people will be aware of the value of land in alternative uses.

The rental value of land can be conceived as arising from two sources. The first source of land value is the inherent natural productivity of land, in combination with the fact that land is limited. This source may be labeled "nature." The second source of land value is the growth of communities and provision of public services. This source may be labeled "community development." All citizens have equal claims on the component of land value that arises from nature. The component of land value that arises from community development is the natural source of revenue for financing public services, such as roads, parks, and sewer systems, that raise the rental value of land in the vicinity of the service.

The following procedure provides a just allocation of the rent of land. First, each community assesses the rental value of the land in its domain. (Assessment is discussed in greater detail below.) Second, each citizen in the community is sent a bill for the land that he or she controls, less the rental value of a per capita share (about one hectare per person in most of Eastern Europe) of agricultural land of average quality in remote areas. A citizen who controls no land, or less in value than a per capita share, receives a check rather than a bill in this step. Next, the community appropriates to its own treasury the component of land value arising from community growth. If a community has relatively few citizens in relation to the value of its land that is attributable to nature, it will have a surplus at this stage. This surplus is sent to a central clearing house, and then paid out to those communities that have a relatively large number of citizens in relation to the value of their land that is attributable to nature. One further adjustment in the allocation of land rent is made. To the extent that the rental value of land is increased by projects such as major road systems that extend across communities, each community is assessed a share of costs based on the extent to which such projects raise the rental value of land in the community.

The assessment of the rental value of land can be done either by an agency appointed for that purpose, or by the use of a market process. In either case, the goal is to estimate the value of the right to use land for a year, in a sustainable way, when one has the option of future use upon payment of the future rental value. The assessment process is made easier by the fact that rental values change very smoothly over space. If one wished to assess the land in a community by an administrative process, one would begin by bringing together eight or ten persons with practical knowledge of the economy of community. One would first ask them to identify the most valuable site in the community, that is, the central crossroads, the market, or the location with the greatest concentration of pedestrian traffic. One would then ask the group to reach a consensus regarding the rental value, per 100 square meters, of land at that location. Next, one would ask them to consider a particular site at some distance such as 100 meters from the first site, and reach a consensus as to what lower rental value this site had. Then the group would be asked how far one would go in other directions from the first site to encounter land with value equal to that of the second site. The answers to this question would provide a contour line of sites of equal value. Then one would go another 100 meters and construct another contour line, and so on until one reached agricultural land. In large towns, one would have to consider the possibility that there would be multiple local centers from which rental values declined. Once agricultural land was reached, contours might be constructed at intervals of one kilometer or so, reflecting the value of access to the center of the community. It would be expected that features such as access to rivers or streams, soil quality, and the steepness of slopes would affect the contours of equal agricultural rental value. Once the contours were drawn, the value of any site would be estimated by interpolating between the contours.

If one wished to use a market process for assigning rental values, one would invite potential users of land to provide contour maps of their own devising. Each contour map would be required to apply to at least 200 parcels, and would represent a guarantee by the person submitting it that if any site in the area he or she had assessed were to become available, someone could be found who would be willing to pay the rent stated for that site. The rental value that would actually be employed for any site would be the maximum of the values stated for that site. The assessor who provided the maximum assessment would have first refusal on the use of site if it were to become available. If that assessor did not wish to use the site, it would be offered for use at auction, and if the highest bid was less than the amount the assessor had named, the assessor would be billed for the difference. For the service of providing assessments and guaranteeing rents, an assessor would be paid something like 1% of the rents collected for the sites for which he or she was the assessor who stated the highest value.

These assessment procedures are designed to require every user of land to pay the full value of what he or she appropriates from the gift of nature, while at the same time providing security of tenure at a reasonable rent to anyone who places durable and immobile improvements on a site. The procedures can be seen to be working if land is not left idle, if any auctions that occur generate prices close to the assessed values, and if rights to the use of unimproved land are voluntarily transferred at very low prices.

To ensure that everyone who uses land is aware of the potential value of its use in other activities, rent must be paid on land not just by private users, but also by government agencies--the providers of parks, schools, roads, airports, and so on. It not necessary to collect more taxes from citizens to do this; the money that is collected in rental charges on government agencies is the source for increasing their budgets so that they are able to pay the rental charges. But the practice of making this cost of public services explicit puts pressure on government agencies to economize on their use of land, so that there will be more land for other uses.

The exercise of a privilege that others are not permitted to exercise is in the same category with the use of land. Examples would be broadcasting on limited radio frequencies, fishing in places where not everyone is permitted to fish, or (in some cities in the U.S. at least) operating a taxicab when the number of persons who are permitted to operate taxis is limited. Every such privilege that is available to fewer persons than wish to exercise it should require the payment of a fee into the public treasury, such that the number of persons who are willing to pay the fee is equal to the number of persons who will be permitted to undertake the activity. One way of discovering the appropriate fee is to ask all interested persons to submit bids, and then require the winning bidders to pay a very small amount more than the greatest losing bid. For example, if ten person want to be assigned radio frequencies to use and there are only five to be assigned, the ten would be asked how much they would be willing to pay, on an annual basis, for the use of a frequency for a year. The five who named the highest amounts would be assigned frequencies for the year, and each would be required to pay $1 more than the sixth highest bid.

Charges and Credits for Activities that Affect the Rental Value of Other Sites

The construction of contour maps of rental value may reveal that there are some places where rental values peak or dip for reasons other than the natural characteristics of land. When this occurs, it can be expected that the causes of these peaks and dips can be found in the activities that occur at the centers of these anomalies. For example, there might be a meat-packing plant that generated a noxious odor detectable at some distance, making people reluctant to live or work in the vicinity. When such an effect show up in a contour map, it is possible to identify how much higher land rents would be in the absence of the identified cause. This amount should be charged to the activity as an additional cost that must be covered if the activity is truly worthwhile. Similarly, a particularly attractive private use of land may cause rents in its vicinity to be higher than they would otherwise be. Such an activity should be awarded the increase in rents that it is observed to cause. In this way every user of land will have an incentive to seek harmonious uses of land and shun those that are detrimental to neighbors. In particular, the heavy industries that pollute air and water severely will face very high charges for their activities, and the possibility of reducing these charges will give them a strong incentive to take whatever steps can efficiently be taken to reduce the pollution they cause.

Depletion of Natural Resources

Some uses of land reduce its potential for future use. Examples are the extraction of oil and minerals from the ground, intensive cutting of natural forests, fishing at a rate that reduces the stock of fish, and the depletion of soil by repeated growing of crops that remove nutrients from the soil. Occasionally these depleting activities are consistent with the best use of resources, as when oil and minerals are removed from the ground. These resources cannot be used without being used up. But often depletion represents reckless disregard for future opportunities that are thereby sacrificed. Even with resources that must be used up to be used, excessively rapid depletion can occur. To ensure that those who engage in potentially depleting activities take proper account of the sacrifice of future opportunities entailed in their actions, anyone who uses land in such a way as to reduce its future potential must be charged an amount equal to the present discounted value of the reduction in future rental value that results from his or her activity. Then the users of land will find it attractive to engage in depleting activities only when the current benefits exceed the long-run costs.

Receipts from those who deplete land and exhaust resources constitute a fund over which the present generation has an obligation to act as custodian for all generations. For sustainable activities, each generation can reasonably follow its own inclination, since future generations will not be constrained by the decisions that are made. But engaging in non-sustainable activities reduces the opportunities of future generations. This does not mean that non-sustainable activities should never be undertaken. Only that the income thereby generated must be shared among all generations. One way of sharing the income is to invest it in a capital fund that can then pay dividends to all generations. Another way is to use the fund to provide social capital, such as a national highway system, that will provide direct benefits to all generations. But in one way or another, depletion charges must be shared among all generations.

Summary

Economic justice is a natural outgrowth of principles of individual liberty, equal opportunity, and respect for the rights of others. Individual liberty entails the idea that we each control our own lives, and therefore we own what we produce and are free to trade with whomever we choose. Free trade requires access to a currency that one's potential trading partners find attractive. Thus the government of a free society does not restrict the access of its citizens to foreign currencies, and if the government does provide a currency, it strives to make it attractive by some practice such as defining its value in terms of one or more commodities and standing ready to exchange the currency for commodities. Control over the currency is never used by the government of a free society as a device for extracting resources from the population in exchange for mere printed paper.

Since no one made the land, no one can have a respectable claim to disproportionate use of land, except by compensating those who thereby have less than proportionate shares. Thus, a just government collects from every user of land a fee equal to the rental value of the land used, less the rent on a per capita share of remote agricultural land of average quality. When a use of land raises the rental value of surrounding land, the government awards that increase to the person engaging in the activity that caused it. When a person engages in an activity that reduces the value of surrounding land, the government charges the person for that reduction in rental value. When a person uses land in such a way as to reduce its future rental value, the government charges that person the present value of the loss of future rental value, and employs the funds so collected to the equal benefit of all generations.