

# The effect of privilege

In part two in this series **Ole Lefman** tallies the good and bad effects of privileges, including their contribution to the protection of trade freedom

*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)*

PRIVILEGE – allowances for a few to do what is prohibi

The existence of privilege in society has many effects, some of which are good and some bad. A main area of their influence is how business and trade can be conducted. The balance of their effects is the consequence of the efforts of the power-brokers in society.

In most modern societies exclusive rights or entitlements are enjoyed over many things. A clear and strong philosophical defence can be made for exclusive rights to manmade property. No privilege is involved or invoked in such rights. The effects of those exclusive rights are reckoned to be good. Privileges – exclusive entitlements – must be invoked in all other situations.

Sometimes, privileges are granted *to use or dispose of land* or other natural advantage.

Some places are rich in the resources that human beings need for their survival and comfort. Some locations provide advantages strongly sought after by human beings. Other areas are poor in resources: they may provide only little or no advantages to those who occupy them. In primitive societies the more sought-after areas will be occupied by the more powerful individuals and groups, who then exclude those who are less powerful.

In organised societies the government by its supreme authority makes and enforces the rules and laws which govern the territory. Government guarantees exclusive entitlement to use and dispose of lands or the resources they contain, to those who are able to pay the highest tributes – in exchange for an annual rent or a once-and-for-all lump sum. This is a country's system of land tenure.

Advantages available on or beyond the tide line – at sea level or under or above it – are dealt with in the same way. In recent decades other resources such as positions in space, and the radio spectrum have been dealt with similarly.

Advanced societies need such rules. Without exclusive entitlement to the use of land and other natural advantages,

## Privilege

A privilege — etymologically 'private law' or law relating to a specific individual — is a special entitlement or immunity granted by a government or other authority to an individual or a restricted group, either by birth or on a conditional basis. A privilege can be revoked in some cases. In modern democracies, a 'privilege' is conditional and granted only after birth. By contrast, a 'right' is inherent, irrevocable and held by all humanity or all citizens from birth.

[Wikipedia.org](https://en.wikipedia.org)

# the L&L essay

competition between human beings who want to use natural resources could turn into social unrest. But even if people restrained from violence, the absence of security of tenure would make modern production and commerce near impossible: without security people would not be as confident to initiate development fixed by location – such as the erection of buildings, fixing of plant, installation of infrastructure, or the cultivation of longer-term crops.

Society has a common interest in the best possible use of the advantages provided by nature and society. So these exclusive entitlements – which are privileges – are reckoned generally as being of good effect.

Sometimes privileges are granted *for the purpose of regulation and control*.

In order to safely, efficiently and equitably manage certain activities, substances or processes, the government may wish to regulate by general prohibition. By issuing licences which privilege identified parties, these things can be dealt with according to rules and regulations given and controlled by government.

The subject of such privileges might include things like polluting processes, nuclear activity, genetic modification, certain sorts of scientific research; trade in medical drugs, explosives, weapons, dangerous products and services; handling of waste water, rubbish, disposal of corpses; exertion of physical power within and beyond the realm; and putting money into circulation.

Without such restricted privileges the alternatives would be either total prohibition – meaning nobody taking advantage of the possibilities in question – or unrestricted and unlicensed free activity – uncontrolled handling of waste water, rubbish and dead bodies, and the uncontrolled exertion of power.

The effect of allowing privileges granted for the purpose of regulation and control is reckoned generally to be good.

Some privileges are granted *as rewards* for meritorious services.

The government may give privileges to people who have served it or the people. These privileges may give their holders advantages over their competitors who then suffer from the privileges. The privilege holders would find the effect of this to be in their own interests – so for them a good effect.

Without exclusive entitlements granted as rewards for services, the government would have to pay money. The government that saves expense by pushing the cost of such rewards on to future governments may consider this a good effect. Future governments may find the effects bad. People in general may find that postponement of expenses to be a good effect. But in general the good effect would actually be very limited.

Some privileges are granted as what are known as '*intellectual property rights*'.

Creators of 'intellectual property' can enjoy protection over their work. Inventors, composers, artists, writers, designers and other such people may have copyright over or apply for a patent to the product they have brought forward. Patents are privileges meant to enable the inventor to receive commercial reward in proportion to the value of the advantages that their inventions have provided for the public.

Without doubt the beneficiaries of intellectual property rights enjoy their good effects. But it is unclear whether denying these rights would hamper the development of creative output, and whether the effects of intellectual property rights are in fact good for society at large.

But the institution of privilege can also have bad effects.

One bad effect of privileges relates to *competition*. The enjoyment of a productive monopoly or the holding of a privilege can confer a commercial edge over competitors, or can hamper competitors' endeavours to compete. Both these benefits are appreciated by the privilege holder. But their consequence is that goods and services are produced in smaller quantities, in inferior qualities and at increased prices – with excess profits on top of what the monopolists and privilege holders would have been content with, had they not held their privileges.

Monopolists and holders of privileges may find competition-checking effects to be good – but for society at large they will be bad effects.

Another bad effect is *exclusion*. Monopolists and privilege holders, whether productive or non-productive, exclude others from some advantage of nature or society; exclude producers from production; and prevent citizens from enjoying life to the full. The result of such exclusion is that the demand for access to the advantages of nature and society increases – and consequently that the price of access increases. It also means that there are fewer products for sale, and fewer homes for sale or rent – and therefore also increased prices for these things.

Furthermore, an effect of increased prices caused by exclusion by non-productive monopolists and privilege holders is that employees may have to accept living farther from their places of work. This wastes time and money on commuting, uses fuel unnecessarily, contributes to pollution of the environment and adds to congestion. Extended distance between the home and work is reckoned to be a bad effect too.

Both the exclusion of people from areas where jobs could be created, and the exclusion of people from areas for homes near their jobs,

mean a waste of resources and possibilities.

Increased prices of goods, services and homes may be appreciated by the sellers, but society at large will reckon them to be bad effects.

Similarly with unemployment: its effect of lowering wages will be appreciated by employers, but generally it is reckoned as a bad effect.

A third bad effect of privileges can be to enable some *to accumulate wealth from unearned income*.

Though some privileges are without exchange value, other privileges and monopolies can be extremely valuable. Valuable privileges can have several consequences:

- They can build up fortunes to a few persons. Using their excess-profits or windfall-profits as purchasing power, they take out products and services from the market without supplying to the market in reciprocation. This practice leaves a reduced quantity of goods and services for unprivileged and under-privileged citizens to choose from, and those at increased prices.
- They deprive the government of the income it creates by using governmental power to protect private monopolies and privileges. This makes it necessary for the government to collect from the producers (through the tax system) the revenue it needs for the administration of society and for the provision of public services and infrastructure.
- They cause a deadweight on production. The effect of taxes on production and consumption is that demand and supply cannot meet at prices for optimal production; fewer consumers will accept the higher prices and fewer producers will accept the lower income, meaning reduced production and trade, and reduced employment.
- They create poverty among unprivileged and under-privileged citizens who do not receive big salaries or profits for supplying specialised services or goods – whether to the government or to the wealthy holders of monopolies and privileges, and their supporters.
- They increase the gap between rich and poor people. This can destabilise society. It creates a class of very satisfied wealthy citizens living lavishly, a satisfied middle class, and a growing class of very unsatisfied, insecure and alienated citizens who have to accept low wages for their work, or the alternative of unemployment.
- They destroy self-confidence and self-respect among people who are deprived of their equal share of the value of nature and society; they are denied free access to nature and the advantages of society without compensation; they are obliged to accept unfair working conditions and low wages; they have to accept dwellings in disadvantageous locations; and they have to put up with their landlords' inefficient

administration and careless maintenance of their premises.

- In the longer term they sweep our civilisation back to barbarism. This is what happened to Rome and the other ancient civilisations. The felling of great civilisations – sometimes catalysed by natural events – is invariably the result of power and wealth concentrated within a select privileged class of citizenry – leaving the multitudes without possibility to provide or fend for themselves, dependent on private charity or social support.

While some of these effects of the holding of a valuable privilege or monopoly may be positive to the interests of those who hold them, society at large will reckon them all for bad effects.

- The effects of privileges – good or bad – are all the result of the exercise of power in society. The use of power may be protective, which in general will be a positive thing; or it may be aggressive, which is usually reckoned to be uncivilised and reprehensible. Sometimes the use of power is protective to some people, but aggressive against others.

When power is used by aggressors they usually make big efforts to describe it as protection. So, when we hear about protection it might in fact be aggression. This is particularly so when speaking about trade. ‘Protectionism’ may be a blessing to some people, but may at the same time be a curse to others. Trade is a major beneficiary of privilege in society.

- In an ideal market, equal actors would exchange their goods and services without problems, satisfying all parties in the market by the provision of economic advantages to them all. However, in reality, without powerful regulation and protection of the market, the conditions of deals would be determined by whoever exerted the strongest physical power. This would often mean the downright capture of goods, or threats which would discourage suppliers from joining the market.

Early in history, rulers and local governments understood that by using power to keep piracy and bullying dealers away from the market, trade would be conducted much more freely. Everyone’s profits would be increased over what they would have been without protection. Protected market places became so successful that traders agreed to pay to the protector a fee out of the profit they could make, which made free market protection a lucrative business for all parties.

It would have been a great advantage for all citizens had these experiences from local market places been copied onto the world market of daily trade and industry. But that is not what happened. Some of the players on the international stage are still able to

enjoy protection of their individual trades or industries in the form of tariffs and taxes on others’ goods, or privileges and monopolies (see L&L 1217).

The most common understanding of ‘free trade’ is of it simply being a market without any governmental regulation, restrictions or taxation. This idea became widespread in the closing phases of the mercantilist period in the 18<sup>th</sup> century. Mercantilism urged that a nation should maximise export of domestic products, and minimise the import of other countries’ products. That policy was based on the idea that a large quantity of precious metal, gold and silver, received in exchange for export, proved economic success and political strength (strong armies being paid in gold and silver). However mercantilism proved to be a fiasco, creating international tensions and aggressions.

It was followed by the idea of liberalism, including the liberation of international trade by the gradual reduction and final abolition of custom tariffs, taxes and restrictions on international trade.

Originally this free trade policy only applied to international trade; but some liberals also urged for abolition of government regulations in domestic trade and industry. It was this post-mercantile understanding of free trade that spread over Europe and the USA during the 19<sup>th</sup> century. During the same period, socialists and communists garnered supporters from the suppressed working class. They raged out against free trade and made it their prime argument for unification of workers in trades unions and political parties. Many suppressed working class people had experienced free competition as a very destructive power. They found that it urged workers to compete against each other, forcing them to accept employers’ unfair conditions of labour – often extremely risky and unhealthy work at low wages. Workers wanted protection against this exploitation and found it to a considerable degree in trades unions and political parties.

The post-mercantile understanding of free trade continued to be a much-used argument for trades unionists and supporters of socialist politics. Even today most socialists are convinced that free trade means unregulated trade and industry, which they strongly oppose.

Liberals of today are no longer fighting mercantilism; they fight the ideas of socialism and communism. They understand free trade in the same way as the socialists. But unlike them, liberals think its effects are positive and urge for the abolition of all regulations and restrictions and for low taxes on trade and industry.

Anti-socialists are also opposed to taxes on the unearned income of landownership and on

other privileges. They argue that there is no difference between land value taxes and other taxes, and urge that taxes should be spread to as many different sources as possible – except investors, enterprises of trade and industry, and privilege holders.

Anti-socialists look away from the fact that taxes on wages are taxes on production. They deny that they are urging against the interests of producers when protecting the ‘free lunches’ of unearned income that ‘non-producers’ capture. They choose to ignore the fact that all taxes burden trade and industry except tax on privilege-profits including rent of land.

But there is another way of looking at free trade: namely, trade freed from monopolies and privileges, as far as that is possible, and freed from restrictions, regulations, and taxes – other than those protecting lives, health, equal rights, and the environment. In order to realise this approach to free trade it is necessary annually to collect the rental value of land and other privileges which have to be tolerated. This revenue could be used for the betterment of all citizens on an equal footing.

The three kinds of free trade I have summarised are, in brief:

- (1) ‘Free trade’ on the world market. This brand of free trade would need only a small customs administration strong enough to cope with illegal trade in drugs, weapons, piracy, etc.

- (2) ‘Free trade’ in foreign and domestic trade and industry. As the aim here would be to avoid any governmental interference in private traders’ businesses, only a small governmental administration is necessary. However, one might foresee a strong confrontation between the holders of privileges and those who are without.

- (3) Free trade without privilege holders’ withholding of the excess profits of privileges, and without restrictions other than those that protect human beings’ lives, health, equal rights and the environment. This genuine free trade needs a strong government administration able to cope with monopolies and privileges which arise. It must also be able to collect the rental value of tolerated valuable privileges – including landownership – and to use the revenue for the betterment of all citizens on an equal footing.

So we see that the success of free trade relies on the good effects of necessary privileges. L&L

*Part three in this series will appear in the spring 2008 issue of L&L and will look at how we can eliminate the bad effects of privileges.*

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