

SOME OBSERVATIONS ON THE NATURE OF PUBLIC ENTERPRISE

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THE EXACT NATURE OF PUBLIC ENTERPRISE has always been obscured for us by a confused and uncorrelated mass of theories, assumptions and superstitions. To gain a clear impression of it, therefore, it will be wise for us to examine more minutely some of the basic essentials of *private* enterprise with which we are more or less familiar—essentials which we have been inclined to gloss over without perceiving their true significance—with a view to determining the similarities between these two different kinds of economic activity. While we know that analogies are dangerous things to play with, it seems reasonable to assume that this approach is valid, inasmuch as we recognize the fact that private enterprise and public enterprise are interdependent, neither one being able to exist and to function without the other. Then again there is another consideration. Both of these broad activities give rise to social values, and it is social values with which economic science is concerned.

Any business enterprise that is concerned with the production and distribution of goods and services can be resolved into two broad divisions, the buying and production department and the administrative and selling de-

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partment. Some business establishments, of course, do not actually make the goods themselves but buy them ready-made from other concerns, and their only production activities, if any, consist in getting the products ready for sale. These two divisions are coordinated by the owner or owners of the capital employed in the business by means of his own personal supervision or by means of supervision exercised by his personally appointed manager or representative. Although the owner supervises the buying and production, or even goes so far as to take an active part therein, these activities are consummated in the function of distribution. Goods may be physically produced, but they cannot reach the hands of consumers and possess value in the social or economic sense until they are merchandised or sold. Goods and services do not distribute themselves. The employees cannot sell the goods that they have physically produced, because they do not own them and can convey no legitimate title to them. If the recipient or consumer is to enjoy complete security of possession of these goods, the title to them must be conveyed by the *owner* of them or by those whom he delegates specifically to perform this distributive function and who are responsible directly to him. Furthermore, the interest of no employee in the business can match that of the owner in so distributing the goods that the capital will be conserved and at the same time yield an adequate income. The employees usually receive a fixed rate of wages and receive them not from the consumers but direct from the owner whether the goods are sold at a loss or not. The owner's income, on the other hand, is not a fixed, predetermined sum but depends upon the profits from the sale of the goods and fluctuates from time to time. It is true, of course, that the security of the employees' jobs depends on the successful administration of the capital of the business, and so they have a vital interest in the business to that extent; but the owner is concerned not only with the security of his own income but also with the conservation of his capital. It is his particular function to seek customers who are not only able to pay but who are willing and able to further the expansion of his business.

While the labor of the employees, which is embodied in physical objects, may have possessed value for the owner (for otherwise he would not have paid wages for it), it can have no value for consumers except as it is brought to the market and distributed by the owner. Consequently, this distributive service is extremely important and usually yields high returns. But while these returns are doubtless due to the skill, resourcefulness and industry of the owner, they cannot be attributed solely to these qualities. We frequently observe men of apparently equal ability receiving unequal returns. Since accident undoubtedly plays a great part in the lives of men, we might ascribe the difference in their incomes to the Law of Accident; but as this law cannot be easily circumvented nor the results of its operation scientifically measured, no consideration can be given to it in an economic investigation.

Therefore, while the inequality in returns for the distributive service performed by the owners is in part due to the difference in skill, resourcefulness and industry, we may safely conclude that it is also due to the greater need of consumers for the service of *some* owners in granting them security of possession of the goods they buy. This security of possession and use of the goods they can obtain from no one but owners.

The inclusion of all forms of human exertion in the single term “labor” by classical economics for the purpose of simplification and in order to identify labor with value has obscured the real significance of ownership and given us a very limited conception of the market. We must distinguish between production and distribution and between labor and administration if we are to understand the role played by owners in economic life and if we are fully to comprehend the mechanism of the market. These differentiations are actually made in business life, and we cannot change the processes, procedures and customs of business. We can only observe and study them. Perhaps one of the principal causes for the rapid and wide dissemination and acceptance of Karl Marx’s economic fallacies and the consequent spread of communism throughout the entire world has been the failure of classical economics to recognize the true nature of distribution and ownership.

Ownership in the economic sense does not involve self-service but the rendering of services to others. For it takes two to make an exchange. This seems to be self-evident, but it is a fact that is frequently ignored in considering the matter of value and service. The market is the mechanism that makes exchange possible, for it is the area in which men bid for the goods and services that *other* men have to sell. But the mere bidding on the part of buyers is not enough for these goods and services to have value. To have value, they must be actually sold for money or other equivalent, or on credit. Before they are sold, they can possess only a potential, an expectant or a speculative value. To quote Henry George,¹ “And when we wish to ascertain the exact value of a thing we offer it at auction or in some other way subject it to competitive offers.” But even more than this, no value can arise until a contract has been made. There must be not only an offer but an acceptance. Thus the distribution with which we are concerned is that which is made for value received.

In the market, buyers are free to refuse to pay the price demanded by sellers, and on the other hand, sellers are free to refuse the price offered by buyers. Neither the buyers nor the sellers coerce or compel each other. Unless this freedom prevails, there is no market and thus no value. We are

¹ *The Science of Political Economy*, Book 2, Chapter 13.

not interested in why buyers refuse to pay a particular price demanded by the seller, nor why sellers refuse to deliver goods at the price offered by the buyer, for then we would be leaving the field of economic science and entering the realm of psychology. We are concerned, as scientists, only with the simple fact of whether they do or do not enter into a contract. When they do, value arises. Only owners, moreover, can give contracts validity, for only owners can assure an orderly and democratic distribution of goods and services together with security of possession.

In describing the market, I am not insisting that it should function in some particular fashion or other in order to suit my own fancy. I am merely describing it as it *operates today*. And I am excluding all opinions about it, as I am interested only in the phenomena that can be observed and in the facts that can be verified by examination. When we refer to the market, then, we must find all of the foregoing conditions. If any of them are absent, the market cannot manifest itself, and any reference to it under such circumstances would inevitably lead to false conclusions. Briefly, the essentials are these:

- 1) There must be an exchange, i.e., the rendering of a service by one person to another for value received. There is no market when a person serves himself.
- 2) There must be freedom of action on the part of each party to the transaction, i.e., a contract, with neither coercing the other.
- 3) The goods and services must be distributed by owners.

It is very important that these three essentials be kept firmly in mind as we turn now to the consideration of public enterprise, for the market that involves the services of public enterprise is no different from the market which involves the services of private enterprise.

As the subject of public enterprise is practically an unknown subject, perhaps it might be well to approach it in a little different way than we did the subject of private enterprise. We can reverse the process and start with the consumer. The consumer of public services is one who is engaged in private enterprise, and private enterprise can be regarded in the broad sense to include all private services.

First of all, no production and exchange can be carried on unless people have fixed locations or sites on which to work and reside. The primary desire of all, then, is for a definite and secure place on which to place their feet. The desire next in importance is the need for public highways and territories for the purpose of communication and access to the individual sites. Other desires may vary in importance in accordance with the needs and temperament of those seeking locations. The farmer, for instance, is

interested mostly in fertile land and proximity to the markets. The merchant seeks a location at which he can sell the most goods. The industrialist aims for rich oil lands, coal and iron deposits and timber lands along with proximity to harbors and terminals. The householder desires a pleasant environment, a beautiful view, nearness to terminals, police and fire protection, schools for his children, sewerage, sanitation and so on. But above everything else, they all want security of possession, for otherwise they cannot enjoy any of these advantages. Fortunately this security is available, as a result of public acceptance and acknowledgment, through the distributive service performed by the owners of the sites and natural resources. By means of this service, those who engage in private enterprise can contract on equal terms for sites in an orderly and democratic manner and enjoy security of possession without fear or favor. In the absence of this service performed by responsible owners, occupancy of sites would depend upon force or corruption or favoritism. Either anarchy or despotism would prevail. Even Henry George had some inkling of this eventuality when he wrote,² “Nor to take rent for public uses is it necessary that the State should bother with the letting of lands, and assume the chances of the favoritism, collusion, and corruption this might involve.” George seemed to recognize the necessity for preserving at least the shell or form of private property in land so that the distributive function of owners could be performed.

While contracts are sometimes made direct with landowners, they are usually made direct with the owners of the buildings and improvements on the land who, in turn, are the tenants of the landowners. By the payment of ground rent, land-users recompense landowners for rendering the important service of distribution. Ground rent is a voluntary payment that is determined by the bargaining process of the market. We observe that the landowner and the land-user enter into a voluntary agreement, *neither coercing nor threatening the other*. The tenant is free to refuse to pay the rent demanded, for not only does the landowner not compel him, but the landowner has no monopoly of sites, natural resources or public facilities. The tenant can obtain them at other sites. And by the same token, the landowner is free to refuse the rent offered by the tenant. There is more than one tenant. This is democracy at its best. Rent is fixed by the competition of the market. The tenant pays only what he believes the service is worth to him.

Now although landowners perform this extremely important service of distribution, they seem to be almost entirely unaware of the fact. In view of their blindness in this respect, it might be imagined that any discussion of

² *Progress and Poverty*, Book 8, Chapter 2.

such a service is mere theory. Yet it was not so long ago that few businessmen realized what *their* real function in society was. They imagined that their sole activity was the making of money instead of the art of rendering services to the community. Their knowledge was empirical rather than rational, as they were completely indifferent to the writings of political economists. It was only when repeated political attacks supported by popular clamor created alarm in their ranks that they woke to the need of justifying their activities to the masses. With what zeal they tackled this task has been indicated by the persistent output of publicity writers, advertising agencies, corporation reports and bank bulletins. What effect all of this has had on the public is, of course, a matter of opinion, but it is safe to say that a good deal of ignorance and prejudice still prevails, to judge from the labor and tax legislation and the Fair Trade Acts that have been passed in recent years. And if to some, the ignorance of the landowners as to their true function appears so significant, what can be said of the stupidity of the average investor in industrial securities? He seems to be resigned to the general idea that he is a parasite receiving an unearned income instead of being aware that he is rendering a service to the community by merchandising his capital to industry. His supineness in the face of constant political sniping at large corporations that destroys his own capital investment, amazes those who are trained in economic thinking. It does not seem reasonable to assume, therefore, that similar blindness on the part of the landowner is any kind of proof that he performs no legitimate function.

At this point, it may be necessary to explain that landowners are not to be confused with land speculators. Speculators are not owners in the true sense, for they render no service and, therefore, receive no income from their land. The aim of landowners is to so administer their land as to obtain an income from it. The aim of speculators is to realize a gain on an expectant valuation of their land. In the vast majority of cases, they are vain seekers after the pot of gold at the end of the rainbow, more to be pitied than condemned. Speculation, of course, has the tendency sometimes of compelling land-users to move on to poorer locations, but at the same time, it is observed that this result is counteracted to some extent at least if not entirely, by the opposite tendency of inducing land-users to occupy superior locations. We might attempt to theorize about the total effect that speculation in land has on society, but from a strictly scientific viewpoint, it is impossible to measure such an effect. What we are chiefly interested in at the moment is a study of the social function that landowners, as distinguished from speculators, perform for the benefit of the community. As a class, they are anxious to obtain an income from the administration of their lands, and they can only receive it when they rent their lands to those who are able and willing to use them. Contrary to the belief of some people, private property in

land is not a privilege but an obligation to serve. There can be no private property in land without service, and there can be no service without private property in land. They are reciprocal.

In the relationship between landowner and land-user, the three essentials of the market are present. First, an exchange takes place between two people. Second, there is freedom of action on both sides. Third, the service is sold by owners. It would seem, therefore, that the institution of private ownership of land maintains an open market for land as opposed to the monopolization of land by political authority. The characteristics of ownership are seen to be: 1. Possession. 2. Enjoyment of income. 3. Transferability. These are the three characteristics that distinguish an owner in the social or economic sense from a non-owner. While all of these characteristics must be present for the ownership of any property to manifest itself, perhaps enjoyment of income, even more than the other two, particularly sets off an owner from a non-owner. A person may possess something and even be able to transfer it legally, but yet receive no income from it. Thus he is not regarded as an owner of a going enterprise. The income from any business *flows only to the owner through the mechanism of the market*. Income in this sense, therefore, must be sharply distinguished from forcible appropriations or seizures.

Now as landowners are the only people who receive the income from public enterprise, it would appear that they are the actual owners of that enterprise. But thus far we have discussed only one phase of the public business—namely, the distribution of public benefits by landowners to their tenants or customers for value received. It is at this point that the analogy between private enterprise and public enterprise breaks down. Unlike the owners of private enterprise, the owners of public enterprise do not supervise the production department. This department consists of the public servants or government employees. These employees make no public investments of their own but provide the instruments of production and their own recompense from the forced contributions of the landowners and their customers through the medium of taxation. No contractual relationship arises between themselves and those they tax, and so they receive no income through the bargaining process of the market. They may possess what they appropriate and have the legal right to transfer it as they wish, but they do not enjoy any income from the use of it. Consequently, they are not owners of any public capital or property in any social sense.

The public employees are engaged partly in producing certain necessary facilities such as public buildings, highways, bridges, harbors, sewerage, libraries, sanitation and police and fire protection; but these they cannot distribute for value received because they are not owners and are, therefore, not in

the market. Secure and orderly access to these facilities is distributed to their tenants by landowners who, through their merchandising function as owners, raise such public benefits to the dignified status of services. As these benefits are not financed by the owners, there is no device available for determining whether or not they are furnished with the maximum efficiency and at the lowest possible cost, such as is afforded by the market for evaluating all of the other economic activities of society. Having no sense of responsibility and no technique of calculation such as is established by ownership, the public servants generally are not greatly concerned by the waste and depletion of the properties in their possession, merely resorting to replenishment by further appropriations of private wealth.

Where the idea of “divine right” prevails, these public servants are theoretically regarded as holding the properties in trust to be used at their own discretion to promote the general welfare. Where the idea of popular sovereignty holds sway, they are looked upon as elected representatives of the people who carry out the wishes of the majority. Theoretically, the people are considered to be the real owners of the public properties. From the strictly scientific viewpoint, however, the masses of the people cannot be the owners, and for the following reasons: 1. They receive no income from the properties. 2. They are *consumers* of the public services and pay ground rent to landowners either directly or indirectly for making these services available to them through the technique of exchange. 3. Owners cannot render services to themselves, for otherwise no values would arise, and there would be no society as we know it.

This realistic view of the public business may throw some light on the universal enigma that, for thousands of years, has disturbed educators, philosophers and social leaders: the apathy of the great masses of people towards public matters. In later years, they have placed their faith, with few exceptions, in mass education. Yet in spite of the prodigious increase in the number of schools, colleges and universities and the many experiments in educational methods, the apathy still remains. And recently some of these socially minded people, in their despair, have resorted to suggestions of destructive means for waking the masses up, such as heavier direct taxation. That their influence has been felt cannot be doubted, for here and there we find individuals studying such subjects as government and political science and participating in the activities of civic organizations. But always they run smack up against the tough wall of human nature. The primary desire of the public servants is to maintain their own positions by catering to the strongest pressure-groups, who are ever present, cajoling, threatening and generally corrupting the guardians of the public trust until they obtain advantages at the expense of the community. Consequently, the net result of the ex-

hortations of these earnest but misguided social leaders has been simply to inspire the masses to further efforts to raid the public treasury and to place restraints and penalties on their neighbors in the hope of benefiting themselves. In fact, they have succeeded in getting the people to act like anything but responsible owners of the public properties. And as the steadily increasing burdens imposed on private enterprise depress the production and exchange of goods and services far and wide, disemploying men and deepening the poverty and misery of the masses, the demands on the public servants increase in complexity and number, driving those worthy individuals to distraction and fury in their futile attempts to please everybody and to counteract the inevitable effects of their ingenious schemes of taxation, restriction and regulation. Viewing with alarm and disillusionment the chaos and destruction on all sides, the mounting public debts, the multiplication of taxes and the accumulation of deficits, some people can find no comfort or escape except to take refuge in the nebulous philosophy of anarchism or to follow the dubious flag of the fascist.

Such intellectual confusion springs from the failure to study the structure of public enterprise along scientific lines. The result has been to insist upon the masses of the people acting as responsible owners of the public properties when in reality they are not owners at all. How can they possibly possess the psychology of owners when they enjoy no income from the public properties and have no technique of administration and supervision that ownership gives? They have no more interest in conserving the properties and supervising the public employees than have the customers of a private business any interest in concerning themselves about the problems of the private owner. Both are consumers, and as such, are interested only in receiving services. Human nature cannot be ignored. Men seek to satisfy their desires with the least amount of exertion, and thus far the world's leading educators have not been able to devise any method by which this instinct can be reversed. Moreover, aside from the psychology of the matter, to expect those people who are engaged in private enterprise to concern themselves at the same time with the operation of public enterprise, is to impose upon them a double physical and mental burden, a burden that is impossible for them to shoulder.

The landowners are in the peculiarly logical position to bring order out of chaos, for by merely extending their distributive function of ownership to include the administration of the public properties and the supervision of the public servants, they could coordinate the production and distribution departments into a complete and harmonious whole. By permitting their customers to be hampered and depressed by heavy and restrictive taxation, they have contributed to the partial destruction of their own market with the

result that much of their lands lie idle. And instead of protecting the purchasing power of their tenants, they have expended a good deal of their energies in forming pressure groups of their own for the purpose of having the taxes shifted from themselves onto their tenants. Wherever and whenever this purpose has been accomplished, they have been repaid by a shrinkage in the demand for their lands and a decline in rents and capital values. This is the retribution meted out to them for their indifference to natural law. Landowners do not fully realize that they have a vital and continuing interest in the prosperity and well-being of their tenants. Any additional service they could render their tenants by relieving them of the burdens and stresses of taxation would be amply compensated by an increase in rents, actually exceeding, by reason of the indirect effect, the sum of the taxes themselves. In a sense, such taxes would be transmuted, through the civilized technique of exchange, from forced contributions into voluntary payments in the form of ground rent for value received. Out of this expanding rent fund, the public facilities could be financed by landowners. In fact, they would have no alternative, for in the absence of such financing, there would be no public facilities and rent would disappear. Thus, by a beautiful adjustment to the operation of natural law, the common needs of society can be met through the technique of exchange and service rather than by the crude methods of compulsion.

Any move to divest landowners of their distributive function by nationalizing land or confiscating rent would destroy the open market in which sites, natural resources and public facilities are made available to land-users in an orderly and democratic manner and transform society from a civilized community into a horde of barbarians. Such action would ignore that wisdom of Henry George,³ “With the beginning of exchange or trade among men this body economic begins to form, and in its beginning civilization begins.”

³ *Science of Political Economy*, Book 1, Chapter 5.