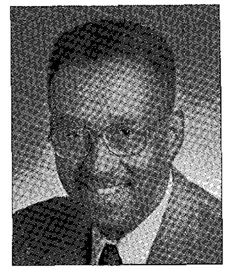

Economics and Property Rights

BY WALTER E. WILLIAMS

Economic theory does not operate in a vacuum. Institutions, such as the property-rights structure, do not change economic theory but influence how the theory manifests itself. Similarly, the law of gravity is not repealed when a parachutist floats gently down to earth. The parachute simply determines how the law of gravity manifests itself. Failure to recognize the effect and role that different property-rights structures play in the outcomes we observe leads to faulty analysis.

Think about several questions. Which oyster bed will yield larger, more mature oysters—a publicly owned or privately owned bed? Why is it that herds of cows are not threatened with extinction while buffalo were? Who will care for a house better—a renter or an owner? Finally, why are some societies richer than others?

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The answer to each question has to do with the property-rights structure, whether property rights are held privately or communally. When property rights are held privately, the person who is deemed the owner has certain rights that he expects will be enforced. Among those rights are the right to keep, acquire, use, exclude from use, and dispose of property as he deems appropriate in a manner that does not infringe similar rights held by others. The owner also has the right to transfer title to the property and otherwise benefit from its use. When rights to property are held communally, such a bundle of rights does not exist. In general, the key difference between privately and communally held property rights is that individuals do not have the right to exclude others from use, and they do not have the right to transfer title.

Let us turn to our questions. In a publicly or communally owned oyster bed, everyone has a claim. For a person to assert his claim, he has to capture the oysters. This leads to overfishing because the person who tosses back an immature oyster does not benefit himself. He benefits someone else who will keep the oyster.

It's a different story with a privately owned oyster bed. The owner need not capture the oysters in order to assert his claim and can allow the oysters to mature.

It's the same principle with buffalo and other wildlife that's publicly owned. However imperfectly, governments attempt to solve this property-rights problem with licenses, fishing and hunting seasons, and limits on catch and size. The difference in outcomes, based on the property-rights structure, is a no-brainer. As Thomas Sowell writes in *Knowledge and Decisions*, "It is precisely those things which belong to 'the people' which have historically been despoiled—wild creatures, the air, and waterways being notable examples. This goes to the heart of why property rights are socially important in the first place. Property rights mean self-interested monitors. No owned creatures are in danger of extinction. No owned forests are in danger of being leveled. No one kills the goose that lays the golden egg when it is his goose."

Aristotle said, "What is common to many is taken least care of, for all men have greater regard for what is their own than for what they possess in common with others." What he is saying is that private property rights force people to internalize externalities, which is just a fancy way of saying that a person's wealth is held hostage to his doing the "socially responsible" thing—

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wisely using the planet's scarce resources. Private property rights induce the homeowner to take into account the effect of his current use of the property on its future value. That is why we expect a homeowner to give better care to a house than a renter. A homeowner has a greater stake in what a house is worth ten or 20 years later. An owner would more likely make sacrifices and take the kind of care that lengthens the usable life of the house. He reaps the reward from doing so, or pays the penalty for not doing so. Owners require security deposits against damage to make renters share some of their interests in the property.

Restriction on Profits

A completely ignored aspect of restricting private property rights is the restriction on the right to profits. Pretend you own a firm and you can hire one of two equally capable secretaries. The pretty secretary demands $300 a week, while the homely secretary is willing to work for $200. If you hired the homely secretary, your profits would be $100 greater. But what if there were a 50 percent profit tax? The tax would reduce your profit, thereby reducing your cost of discriminating against the homely secretary. Before the profit tax, the cost of discriminating against the homely secretary would be $100. After the profit tax, that discrimination would cost you only $50. Discriminating against the homely secretary would be consistent with the predictions of the law of demand: the lower the cost of doing something, the more people will do it. Hiring the pretty secretary would put the profits in a nonmonetary and hence nontaxable form. Wherever private property rights to profits are attenuated, we expect more choices to be made on the basis of non-economic factors, such as race and other physical attributes. That's especially the case where there is no profit motive at all, such as nonprofit entities like government and universities.

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One might find the previous statement puzzling knowing that government and universities have preferential hiring policies in favor of racial minorities. There is no puzzle at all. When it was politically expedient, government and universities were the leaders in discrimination against racial minorities. Now that it's politically expedient to discriminate in favor of racial minorities, government and universities are in the forefront. For example, in 1936, there were only three black Ph.D. chemists employed by all the white universities in the United States, whereas 300 black chemists were employed by private industry. In government, blacks were only 1 percent of nonpostal civil-service workers in 1930. Interestingly, when blacks finally made their entry into white universities, much of it was in the moneymaking part of the university—sports.

Economic growth is affected by the property-rights structure. Several annual studies measure variables such as constitutional enforcement, freedom of contract, and the protection of property rights to compare the level of freedom across countries over time and estimate the relationship between freedom and prosperity. They unequivocally conclude that economic growth is positively related to the security of property rights. The 2007 edition of *The Economic Freedom of the World* found that nations in the top quartile of economic freedom have an average per-capita GDP of $26,013, compared to $3,305 for those nations in the bottom quartile. The top quartile has an average per-capita economic growth rate of 2.25 percent, compared to 0.35 percent for the bottom quartile. In some years, some countries in the bottom quartile experienced negative growth.

Even if private property rights did not produce greater wealth, prosperity, and efficient resource allocation, they would be morally superior to any alternative because they recognize the sanctity of the individual. As John Adams put it, "Property is surely a right of mankind as real as liberty," adding, "The moment the idea is admitted into society that property is not as sacred as the laws of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence."

"The art of government is the organization of idolatry.
The bureaucracy consists of functionaries;
the aristocracy, of idols; the democracy, of idolaters.
The populace cannot understand the bureaucracy:
it can only worship the national idols."

—George Bernard Shaw (1856–1950),
Man and Superman

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