

# Private Property, Freedom, and the West

THE ARCHITECTS OF Western Civilization believed that protection of private property was essential for the preservation of individual freedom. When individuals do not possess secure property rights, dependency on kings, lords, and governments for the essentials of life is inevitable. But freedom and dependence are antithetical; one cannot be free and simultaneously be dependent.

In recent decades, appreciation of private ownership has been declining in the West. High taxes, welfare transfers, regulatory restraints, and bureaucratic edicts are eroding private property. Increasingly, the political process—that is, government ownership and control—is being substituted for private property and the market process which is a natural outgrowth of private ownership.

Paradoxically, the decline in appreciation for private ownership is coming at a time when both theoretical advances and economic outcomes are strengthening the case for private ownership. Evidence is mounting that private ownership not only protects liberty, as our forefathers recognized, but it also provides for superior economic performance. In contrast, government ownership creates a perverse incentive structure which leads to a Hobbesian world of political infighting and waste of valuable resources.

## Three Types of Ownership Rights

Property ownership denotes who has the right to control and benefit from a thing. There are three types of property rights: (1)

communal, (2) private, and (3) state (or government).

Communal property rights grant everyone the right to use a resource as intensely as they desire. No one has exclusive ownership—the right to prohibit unauthorized use by others. Since individual resource users bear little of the costs accompanying resource exploitation, each has an incentive to use the resource before someone else does. Thus, over-utilization and failure to conserve for the future characterize communal ownership. The case of buffalo in the early West illustrates the impact of communal ownership. Each hunter knew that a buffalo that was not captured today would probably be captured tomorrow by someone else. Since exclusive ownership was absent, so too was the motivation to exploit the buffalo in a manner that provided for the future posterity of the animal. The outcome: mass slaughter of buffalo for their hides and virtual extinction of the species. While communal ownership may appear attractive to a utopian, the system fails to make individuals accountable for their actions. Economic waste and destructive behavior are the result.

In contrast with communal rights, private ownership grants individuals and private

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groups the exclusive right to control, benefit from, and transfer property as long as their actions do not harm the property of others. Each party is free to do what he wants with his private property as long as his use does not violate the property rights of another. While often associated with selfishness on the part of owners, private ownership would more properly be viewed as a means by which owners are protected against the selfishness of others. Private ownership provides legal protection against the seizure of one's property via theft, violence (or threat of violence), or fraud by another party.

Finally, property may be owned by governments. The government ownership may involve either direct title to property or indirect ownership via taxation and regulation of property nominally owned by private parties. While state-owned property technically belongs to all, this does not mean everyone has the right to use it. In contrast with communal property, government ownership provides for exclusive use by designated parties. The political process determines how, by whom, and under what conditions government property may be used. Essentially, government ownership substitutes the decision-making of government officials and the political process for the choices of private owners.

### **Individual Freedom, Private Ownership, and the Intellectual Roots of the West**

As the population of Europe grew in the sixteenth century, land became increasingly scarce. The communal ownership of grazing lands and the destructive impact of overgrazing which accompanied it eventually led to the enclosure movement. About the same time, changes in military technology expanded the optimal size of geographic area defensible against potential intruders and plunderers. This led to the nation-state as a replacement protective agency for the prior feudal order.<sup>1</sup> Simultaneously, the influence of the Reformation began to sweep across Europe. By the seventeenth century, the idea

that individuals had certain God-given rights that should not be violated by anyone gained popularity.

It was against this background that people like John Locke and David Hume began to think seriously about human freedom, private ownership of property, and the role of government. They propagated the view that all individuals, not just those born of noblemen, were entitled to the fruits of their labor and enjoyment of their property. However, private property was constantly threatened from, as Locke put it, "the invasions of others." As a result, in his *Second Treatise of Government* (1690), Locke argued:

[An individual] seeks out and is willing to join in society with others, who are already united, or have a mind to unite, for the mutual preservation of their lives, liberties, and estates, which I call by the general name, property.<sup>2</sup>

Hume, too, perceived that the major function of government was to protect the possessions of individuals and thereby provide for freedom and order. In his *Treatise* written in 1740, Hume stated:

No one can doubt, that the convention of the distinction of property, and for the stability of possession, is of all circumstances the most necessary to the establishment of human society, and that after the agreement for the fixing and observing of this rule, there remains little or nothing to be done toward settling a perfect harmony and concord.<sup>3</sup>

These early English philosophers exerted a profound influence on the thinking of Thomas Jefferson, John Adams, James Madison, and other early American political leaders. The architects of the U.S. political system also believed that private property was the foundation of human freedom and that the function of government was to protect and secure the possessions of individuals from both foreign (national defense) and

domestic intruders. It was John Adams's opinion that:

Property is surely a right of mankind as real as liberty. . . . 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.<sup>4</sup>

The early American intellectuals were keenly aware of the interdependency of personal freedom with one's right to own property. Labor and saving are the foundation of physical property. Without physical possessions, individuals would be unable to store up the fruits of their labor or pass along gifts to family and other loved ones. Denial of one's rights to possessions justly acquired (without the use of violence, theft, or fraud) is equivalent to denying one the fruits of their labor—the very subsistence of livelihood.

Thus, without protection of one's private property other rights would have little meaning. Recognizing this point, James Madison argued that protection of private property was interwoven with the protection of other personal freedoms. While still a Congressman from Virginia, he stated:

It is [the right to own property] larger and juster meaning, it embraced everything to which a man may attach a value and have a right, and which leaves to every one else the like advantage. In the former sense, a man's land or merchandise, or money, is called property. In the latter sense, a man has a property in his opinions and the free communication of them. He has a property of peculiar value in his religious opinions, and in the profession and practice dictated by them. He has a property very dear to him in the safety and liberty of his person. He has an equal property in the free use of his facilities, and free choice of the objects on which to employ them. In a word, as a man is said to have a right to his property, he may be equally said to have a property in his rights.<sup>5</sup>

## Wisdom of Our Forefathers

Even with the benefit of the last two hundred years of history, serious scholars must be impressed with the insight possessed by the early proponents of private ownership. Even though they did not understand fully how a private-property based economic system worked, they recognized that it minimized social conflict and protected individual freedom.

Private property and market organization permit individuals to choose different occupations, consumer goods, and even lifestyles without interfering with the freedom of others to do likewise. Market organization based on private property is a system of proportional representation. Each individual casts his dollar votes for the consumer goods of his choice and receives them. Similarly, each individual is free to sell productive services to whomever he or she chooses without having to obtain permission from a king, lord, or political majority. The result is both freedom and diversity as various minorities, directed by market prices, choose varying bundles of goods and supply differing types of productive services.

Contrast this with a system of state property rights and political allocation. In the political arena the majority decides for everyone. For example, when schooling, retirement pensions, housing, and land management are provided through the political process, we all must pay for and subscribe to the program or service favored by the dominant political coalition. The will of the individual must give way to the will of the majority. Unnecessary social conflict results as minority views are suppressed.<sup>6</sup>

Simultaneously, private property also protects individual freedom by keeping economic power dispersed. Of course, power accompanies ownership. The owner of a plot of land determines whether it will be used for a housing development, wheat farm, parking lot, or some other use. The owner of each oil pool determines whether the resource will be exploited now or preserved for the future. However, with

private ownership this power is spread among literally millions of people, no one of whom has much power over another. The power of even the wealthiest property owner is limited by the presence of other property owners willing to provide similar products and services. If the Hunt brothers decide to quit selling oil or David Rockefeller gets out of the banking and real estate business, neither the earning ability nor consumer alternatives available to Americans would be altered significantly.

A recent survey by the Federal Reserve Board indicated the wealthiest two percent of American households own twenty-eight percent of the nation's physical property. At first glance, this appears to be enormous power in the hands of a few people. However, reflection should cause one to question this view. This wealth, enormous as it is, is in the hands of 1.6 million households, representing diverse political, religious, ethnic, and personal interests. Unless it is used to provide services to others in exchange for income, the wealth of these property owners will shrink. Compare the power of these wealthy households with the power of 536 elected federal office holders. This latter group, comprising just .0000025 percent of our population, determines how one-quarter of our national output is allocated. They tax approximately one-fifth of our national income away from earners and allocate it to non-earners. They set the dollar value of the social security benefits received by thirty-six million Americans. The regulatory power under the jurisdiction of the 536 individuals holds a life or death grip on the economic health of literally millions of businesses. In contrast with private owners, members of Congress have the power to take property, a portion of your earnings for example, without your consent. One could go on and on, but the point is clear. When government ownership is substituted for private property, enormous power over the lives of others is bestowed upon a small handful of political figures. One of the major virtues of private property is its ability to check the excessive

concentration of economic power in the hands of the few. Widespread ownership of property is the enemy of tyranny and abusive use of power. This proposition is just as true today as it was a couple of hundred years ago.

### Economic Progress and Private Ownership

While the early defenders of private ownership emphasized its importance as the cornerstone of individual liberty, economic theory indicates that private property also provides the foundation for efficient use of resources and rapid economic growth. Production does not just happen. Human decision-makers must be motivated to undertake productive activities, use resources wisely, and discover better (less costly) ways of doing things. There are five major reasons why a system of well-defined, secure private ownership rights promotes economic progress.

1. *Private ownership encourages wise stewardship.* More than 2,300 years ago Aristotle noted, "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." Here, as in many other areas, his insight has stood the test of time. Private owners pay close heed to how their property is used because if it is damaged, abused, or misused, they will bear the costs of the depreciating action. Simultaneously, improvements that add more to the value of their property than their costs will increase the wealth of the owner. Thus private owners have a strong incentive to undertake cost-effective property improvements.

It is often observed that private housing is better maintained than public housing, private campgrounds better cared for than public grounds, and private lands more efficiently utilized than public lands. This should not be surprising. Private owners take good care of things because they both bear the costs of irresponsible use and reap the benefits of wise stewardship.

2. *Private ownership makes people ac-*

countable for their actions and thereby promotes the general welfare. A system of well-defined, secure private ownership rights allows individuals to reap the benefits of the positive things they do for others and simultaneously holds them responsible for costs they impose on others.<sup>7</sup> With private ownership, producers incur costs when they use resources and simultaneously they are in a position to capture the benefits (through the sale of products and services) their actions bestow upon others. When an activity generates more benefits than costs, profit-seeking entrepreneurs have an incentive to discover and undertake it. On the other hand, they have an incentive to avoid counterproductive activities for which costs exceed benefits. Private ownership makes *decision-makers* accountable. As Adam Smith noted long ago, this accountability is the genius of a private property-based system because it brings individual self-interest and social welfare into harmony.

3. *Private ownership encourages individuals to develop and employ resources in a manner that is most advantageous to others.* When private property rights are protected, people get ahead by selling productive services in exchange for income. The exchange process leads to mutual gains stemming from specialization, division of labor, and mass production methods. Positive-sum economic activities—actions that generate mutual gain for trading partners—are encouraged. Social cooperation and expansion in the size of the economic pie results.

Individuals have a strong incentive to (a) develop skills for which the demand of others is strong and (b) employ their resources in a manner that is most beneficial to others because such employment generates more income. With private ownership, the link between providing services others deem beneficial and personal income will be a close one. Individuals who provide large amounts of productive services to others will earn large incomes. In contrast, those who provide few productive services to others will experience lower incomes. In a very real sense, one's income will be directly

related to one's ability to provide services that enhance the welfare of other people.

4. *Private ownership brings the widest possible range of knowledge to bear upon the problem of scarcity.* Improved knowledge and innovations provide a vital impetus for economic progress. In fact, the major difference between the modern man and the early gatherer-hunter is the amount of knowledge that we possess with regard to how resources can be transformed into desired goods. Our ancestors possessed virtually the same resources available today. But the superior knowledge we possess today permits us to squeeze a vastly larger output per person from the available resources.

No individual or elite group knows everything. Genius often comes from unexpected sources. Private property and economic freedom permit a wide variety of individuals, reflecting different combinations of creative talents, ideas, and market perceptions, to contribute knowledge to the production process. While this attribute of a free economy is often overlooked, unquestionably it is an important contributor to the dynamic growth of production under the system.<sup>8</sup>

5. *Private ownership encourages current resource owners to conserve for the future.* Since the current market value of property will reflect its expected future income, private ownership encourages wise conservation. Any time the present value of using a resource in the future is more valuable than the use of the resource now, the resource will be preserved for the future. For example, suppose one believes the price of a barrel of oil (or any other resource) is going to rise ten percent annually. When the expected increase in price is greater than the interest rate, resource owners (or potential purchasers who think the price of the resource will rise more rapidly than the interest rate) will gain by conserving the resource for the future.

As long as private property is transferable, even current decision-makers who do not expect to personally reap the future harvest of an asset will have strong in-

centive to take the preferences of future generations into account. Suppose a 60 year-old tree farmer is contemplating whether or not to plant Douglas fir trees which will not reach optimal cutting size for another 50 years. When ownership is transferable, the market value of the farmer's land will increase in anticipation of the future harvest as the trees grow and the expected day of harvest moves closer. Thus, the farmer will be able to capture his contribution at any time, even though the actual harvest may not take place until well after his death.

Doomsday commentators who fear we are going to use up vital minerals, cut all the trees, or eliminate all the wilderness areas do not understand the conservation ethic of the market. Should any of these things become relatively more scarce in the future, *when they are owned privately*, their prices will rise more rapidly than the interest rate. The rising price will induce individuals to cut back on their current use, preserve more of the resource for the future, and search more diligently for additional supplies of the resource (and good substitutes for it). As Dwight Lee, Professor of Economics at George Mason University, recently stated, "No social institution does more to motivate current decision-makers to act *as if* they cared about the future than the institution of private property."<sup>9</sup>

### Private Ownership—The Economic Record

The linkage between private property and economic progress has been illustrated under a broad range of circumstances. First of all, there is the economic miracle of the West during the last 250 years. Since Americans tend to lack a sense of history, most fail to recognize just how well the political economy of the West has worked. Improved living standards are not something that started with, say the discovery of the wheel 5,000 years ago. Quite the contrary, the historical record is the story of a nip-and-tuck race between subsistence and starvation. Periods of economic growth have been rare exceptions. Our ancestors were keenly

aware of this point. As Phelps Brown has shown, the real income of a typical English tradesman was virtually unchanged between 1215 and 1798, a period of nearly six centuries. Just as human beings had worked sunup to sundown to eke out a minimal living for 6,000 years, so too did our ancestors just 250 years ago.

However, all of this began to change about the time the new ideas on property rights and the role of government were transformed into public policy. Human creativity developed ideas that transformed the way people lived and worked. Improved farming techniques (e.g. crop rotations, fertilizers, and miracle grains) permitted our ancestors to squeeze much larger outputs from the land. Machines were developed that improved our ability to produce agriculture products and transformed resources into manufacturing goods. Petroleum, electricity, and later nuclear power replaced human and animal power as the major source of energy. Eventually, we figured out how to construct engines that revolutionized our ability to power machines and transport both people and cargo. Not only did we achieve these things, but simultaneously quality food, warm clothing, comfortable houses, and diversity of entertainment were brought within the budget constraints of the mass population. For the first time in history, millions of human beings attained living standards far above subsistence. The economic history of the West is a story of progress far beyond even the imagination of our ancestors.

Just as private ownership based systems delivered economic progress in the past, a check of recent economic performance indicates they continue to do so in the present. During the 1960-1981 period, the annual growth rate of per capita GNP of only four countries exceeded six percent. Those four countries were Japan, Hong Kong, South Korea, and Singapore—all private ownership based economies. Compare the economic record of South Korea with North Korea, West Germany with East Germany, Kenya with Ethiopia, or Taiwan and Hong

Kong with mainland China. In each case, the record paints the same picture—economies that rely more fully on private property rights grow more rapidly.

Even in the Soviet Union, private ownership is associated with high productivity. Soviet families living on collective farms are permitted to cultivate a private plot, the area of which is not to exceed one acre. Although these private plots constitute only about one percent of the land under cultivation in the Soviet Union, the Soviet press reports that approximately one-quarter of the total value of agricultural output is generated on these plots.

### State Property— The Alternative to Private Ownership

One cannot adequately judge the case for private ownership without considering the alternative—government ownership of property. Public ownership means the substitution of the political process for market allocation. Until recently, traditional economists and political scientists held what might be called the “benevolent despot” model of government. According to this view, government decision-makers always choose the alternative that is best for society. The political process was simply viewed as a corrective device.

Recognizing the naivete of this view, a group of economists—they are now referred to as “public choice” economists—set out to enhance our understanding of how the political process really works. While the work has not attracted wide media exposure, it may prove to be the most revolutionary breakthrough of economic analysis during the post-war era.<sup>10</sup> Public choice analysis provides insight as to what we can expect from the democratic collective decision-making process. For our purposes three of the implications are particularly important.

First, there will be a strong tendency for politicians to support positions favored by well-organized, easily identifiable special interest groups. When the cost of special interest legislation is spread widely among the

voting populace, most non-special interest voters will largely ignore the issue. In fact, they are likely to be uninformed as to how the issue impacts their welfare. In contrast, special interest voters will be vitally concerned. They will let candidates (and legislators) know how strongly they feel about the issue. Many special interest voters will vote for or against politicians, almost exclusively, on the basis of this issue. Given the intensity of special interest voters and the apathy of other voters, politicians will be led as if by an “invisible hand” (to borrow Adam Smith’s expression) to promote the positions of special interests.

Second, the political process will be biased toward the adoption of short-sighted policies, actions which yield payoffs prior to a forthcoming election while generating costs that are not readily observable until after the election. The pre-election benefits will enhance the politician’s image with voters while the negative side effect will not generally be observable on election day. Since politicians neither capture benefits nor experience costs beyond their tenure in office, they have a strong incentive to choose alternatives that are attractive in the short run even though the long run effects may be quite different and highly inefficient.

Finally, allocation via the political process encourages individuals and groups to engage in redistributive and protective activities rather than production. When the government moves beyond the protection of private property and actively reallocates income and other property rights, more resources will flow into favor-seeking (economists use the term “rent-seeking”). Individuals, businesses, and interest groups will invest more heavily in political resources (lobbying, contributions, etc.) designed to yield government action that promotes their personal interest. The political ethic of “taking from others in exchange for votes and political resources” replaces the market ethic of “helping others in exchange for income.” However, just as sheep do not stand still while they are sheared, neither do individuals deprived of

their property. Citizens will respond to higher tax rates by expanding their tax avoidance activities.<sup>11</sup> Similarly, additional regulation will lead to additional protective action. The more a society relies upon tax, transfer, and regulatory activities to determine income shares, the closer the society will approach the Hobbesian world of political infighting and economic stagnation. As individuals and interest groups allocate more resources to fighting and clawing for a larger slice of the economic pie, the absolute size of those slices will decline. The American experience with the tax-transfer society is not inconsistent with this view.

### The Invalid Charge— Private Ownership Favors the Rich

Even while recognizing many of the positive attributes of private ownership, critics often charge that it promotes inequality and works to the advantage of the rich. "The rich get richer and the poor get poorer," we are told. When analyzing the validity of this view, it is important to keep several facts in mind. First, ownership of physical property, particularly inherited property, is not a major source of income inequality. Between 81 percent and 83 percent of national income in the United States is allocated to labor and the share has been amazingly constant during the last 50 years.<sup>12</sup> Income differences stemming from the provision of labor services are the major source of inequality in the United States. The share of national income going to physical capital in the form of interest, rents, and corporate profits is only 17 to 19 percent of our national income.<sup>13</sup> Not only is the fraction of income derived from physical wealth small, most owners of physical wealth acquire it by saving from their labor income rather than inheritance. The share of aggregate income derived from inherited property is estimated at two percent. Thus, even complete elimination of the inheritance of property would do little to promote income equality.<sup>14</sup> Given that leaving wealth to whomever one chooses provides a valuable

stimulus to productive effort and that such bequeaths contribute little to inequality, the case for the elimination of inheritance is weak.

Second, we live in a dynamic world, one where there is considerable movement both up and down the economic ladder. A recent study found that of the top twenty percent of income recipients in 1971, more than half had fallen from their prior lofty position seven years later. Similarly, nearly half of those among the bottom quintile of income recipients in 1971 had moved up the income ladder by 1978.<sup>15</sup> Studies of intergenerational income data find even more mobility—both upward and downward—in the comparative economic position of fathers and sons. Private property rewards achievers from all socioeconomic backgrounds. When property—including one's property right to fruits of his labor—is protected from oppressive taxation, achievers from all economic backgrounds have the opportunity to create, expand their wealth, and climb to the top of the economic ladder.

Third, those who charge that private ownership favors the rich generally fail to recognize that the market process is a powerful force for uplifting the mass of population. Blinded by the illusion of a static world, like Marx, they fail to understand the dynamics of economic growth and income generation. As we previously discussed, the major difference between our modern standard of living and that of our ancestors hundreds of years ago is the amount of knowledge we possess with regard to how resources can be transformed into desired goods. When property rights to innovations are protected, a market economy not only provides a strong incentive for entrepreneurs to innovate, but it also provides a *premium reward for innovations that improve the living standard of the mass population*. Successful entrepreneurs will focus on how they can bring a product or service within the grasp of the typical consumer—how they can serve markets where sales units are tabulated in the millions rather than the hundreds.

Most products go through two rather distinct phases. At first, they are quite expensive and purchased by only the very rich. During this phase, producers experiment with alternative designs and methods of production. The high initial price, paid primarily by the rich, serves to cover developmental costs. Entrepreneurs iron out complications and acquire valuable experience which will permit either them or their emulators to succeed in the next phase. During the second phase, production techniques and product modifications are developed making the product attractive and affordable to more and more consumers. Mass production and market penetration are the keys to success in this phase. Of course, entrepreneurs who serve a mass market often earn a fortune. But in the process of doing so, they improve the standard of living of numerous people (remember, exchange is a positive-sum activity).

You cannot have mass production without also having economical products for the mass of consumers. No one understood this point better than Harvard economist Joseph Schumpeter. Summarizing his ideas on this topic, Professor Schumpeter noted:

... the capitalist engine is first and last an engine of mass production which unavoidably also means production for the masses. . . . It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man. Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for a steadily decreasing amount of effort.<sup>16</sup>

Entrepreneurs do not make fortunes by selling just to the rich. Large-scale entrepreneurs must bring their products within the budget constraint of the mass market. In the process of doing so, they uplift the living standards of the mass of consumers. This is a

tremendously important point that both Marx and modern egalitarians totally fail to grasp.

Finally, it makes no sense to compare economic equality under private ownership with an unattainable standard such as perfect equality. The relevant comparison is with what one would expect from the political process. Perhaps surprising to some, there is little reason to believe that allocation via the political process promotes equality. Politicians find redistribution from widely dispersed, disorganized groups (e.g., taxpayers and consumers) to easily-identifiable, concentrated interests (e.g., labor, business, farmers, and the elderly) far more attractive than egalitarian transfers. Similarly, politicians are attracted to transfers that provide (or appear to provide) readily identifiable *current* benefits at the expense of costs that are difficult to observe. These are the types of reshuffles one should expect from the political process and there is little reason to believe they will be egalitarian.<sup>17</sup>

At the individual level, persons who develop persuasive skills (i.e., lobbying, public speaking, public relations, media exposure), organization abilities, finances, and political knowledge will be rewarded handsomely with income, prestige, and power when resources are allocated via the political process. There is little reason to believe that the poor will possess relatively more of these characteristics. In fact, the entrepreneurs and managers in a politically dominated society are likely to be pretty much the same people as those who would excel under market organization. The people with better ideas, more creative minds, and more energy will rise to the top of a socialist bureaucracy just as they will rise to the top in the business world. Those who fare poorly under market organization are unlikely to do better, either relatively or absolutely, under socialism.

The empirical data are consistent with this view. Despite the enormous increase in the tax-transfer sector, the distribution of income in the United States has changed little since World War II. Similarly, there is little

evidence that income transfers have reduced the incidence of poverty. In fact, one can build a strong case that the transfers have confronted the poor with a perverse incentive structure and have thereby actually retarded progress against poverty.<sup>18</sup>

### Concluding Thoughts

Our current situation is beset with irony. The twentieth century has been characterized by the growth of government and the weakening of private ownership. Government expenditures now total nearly forty percent of our national income. More than one out of every five dollars is taxed away from its earner and transferred to another in the form of either cash payments or noncash benefits. Far from protecting property rights as envisioned by the political architects of the West, government has become the major source of attenuation in private property.

Nonetheless, the intellectual case for private ownership is stronger today than at any time in the past. History illustrates that, just as its early defenders perceived, private ownership minimizes social conflict and provides a shield against oppressive concentration of power. Where private property is

most widely respected on this planet, personal freedom is most secure and the presence of the domineering state is least observable. In addition, the evidence of a positive link between private ownership and economic progress is most impressive. Against the historical record of man's struggle for survival, clearly the development of widespread private ownership in the West was associated with something of an economic miracle. The superior performance of private-property based systems continues today as the rising living standards of modern day capitalist economies compared to their socialist counterparts illustrates. Recent work in public choice has made us more fully aware of the defects of even the democratic political process—why political allocation leads to economic stagnation while failing to promote economic equality. Only the naive continue to cling to the notion that the political process is the friend of the mythical common man.

An old Chinese proverb states: "Societies are like fish; they always begin to go rotten in the head." History illustrates the wisdom of private ownership. To the extent we fail to realize it, it merely illustrates we are going "rotten in the head."

1. See Douglass C. North, *Structure of Change in Economic History* (New York: Norton, 1981) for an excellent account of this period.

2. John Locke, *Treatise of Civil Government*, Charles Sherman, ed. (New York: Appleton-Century-Crofts, 1937), 82.

3. David Hume, *Treatise of Human Nature*, book III, part II, para. II.

4. John Adams, "Defense of the Constitutions of Government of the United States of America" in Charles F. Adams, ed., *The Works of John Adams (1850-1856)*, VI, 8f.

5. Statement made March 27, 1792, from *The Works of James Madison*, Vol. IV, 478-79. Also see John Locke, *A Letter Concerning Toleration* for similar views.

6. The case of schooling vividly illustrates the unnecessary social conflict that emanates from political provision. Views vary as to what constitutes a quality education. Some parents would like schools to focus on the basics; others favor a broad curriculum. Some favor highly structured organization; others prefer the open

school concept. Some want their children to attend schools that emphasize moral values and religious beliefs; others oppose even so much as a moment of silent meditation. When schooling is provided in the private sector, all of these diverse views can and are satisfied. In contrast, each of the differences promotes division and conflict within the public school system.

7. Of course, in some cases it is difficult to assign property rights in a manner that permits decision-makers to capture fully the benefits of their actions and make them accountable fully for the costs they impose on others. Migrating animals and use rights to rivers, oceans, and the atmosphere provide examples. Under such circumstances, ideal economic efficiency breaks down. See James Gwartney and Richard Stroup, *Economics: Private and Public Choice*, 3rd ed. (New York: Academic Press, 1983), chapter 30 for additional detail on this topic.

8. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), clearly articulates the importance of this factor.

9. Dwight Lee, "Patience is a Market Virtue," *Reason* (January 1985), 44. Through the ages, some previous writers, including Aristotle, have argued that private parties should be granted exclusive *use* rights while the government still maintains ownership. While maintaining government ownership, several state governments granted use rights to land in early America. Fortunately, this policy was soon abandoned. As our analysis indicates, the problem with use rights without ownership is that the arrangement fails to provide an incentive to maintain and improve the property for the future since, lacking transferability rights, users are unable to capture the benefits of wise stewardship. Also see Richard Stroup and John Baden, *Natural Resources: Bureaucratic Myths and Environmental Management* (Cambridge, Mass.: Ballinger, 1983) for additional detail on the efficiency of private ownership as a protector of natural resources and the environment.
10. For those desiring additional information on the economics of public choice see Gordon Tullock, *The Vote Motive* (London: The Institute of Economic Affairs, 1976); Henri Lepage, *Tomorrow, Capitalism* (LaSalle, Ill.: Open Court Publishing Co., 1978) chapters 5 and 6; James Gwartney and Richard Stroup, *Economics: Private and Public Choice*, chapters 4, 29, and 30; and Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1971).
11. See James Gwartney and James Long, "Tax Rates, Tax Shelters, and the Efficiency of Capital Formation," in Dwight Lee, ed., *The Political Economy of Capital Formation* (San Francisco: Pacific Institute, 1985) for evidence on this point.
12. Labor income is composed of employee compensation plus the earnings of self-employed workers.
13. As egalitarians are fond of pointing out, the richest 20 percent of income recipients own approximately 59 percent of the *physical* wealth, while the poorest 20 percent own only 8 percent of the wealth. In interpreting the significance of data on the inequality of physical wealth holdings it is important to recognize that such wealth generates less than one-fifth of our national income.
14. See Alan S. Blinder, *Toward an Economic Theory of Income Distribution* (Cambridge, Mass.: MIT Press, 1974) for additional detail on this topic.
15. Greg J. Duncan, et al., *Years of Poverty, Years of Plenty* (Ann Arbor: Institute for Social Research, University of Michigan, 1984), Table 1.1.
16. Joseph Schumpeter, *Capitalism, Socialism, and Democracy*, 3rd ed. (New York: Harper and Row, 1962), 62.
17. Less than 20 percent of the income transfers in the United States are means-tested—that is, targeted toward the poor. If one includes transfers stemming from regulatory actions such as trade restrictions, occupational and business entry restraints, and export subsidies, the share of transfers targeted toward the poor would be even smaller.
18. For a comprehensive analysis of this issue, see Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984).