

PROPERTY RIGHTS

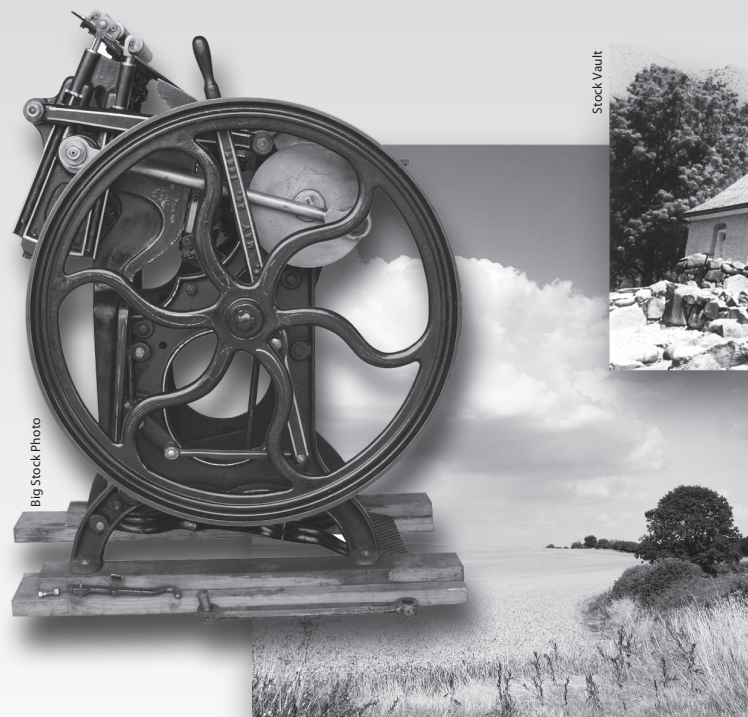
The foundation of our freedoms

PETER LEESON

The most important rights in any society are property rights. Property rights define “mine and thine.” They describe the privileges and obligations of ownership and thus the rights of resource owners. Most importantly, these rights include:

1. A resource owner’s right to use her resource any way she wants, including not at all, provided that in doing so she does not infringe on someone else’s property rights.
2. A resource owner’s right to allow others to use her resource, for free or for a price, and to exclude others from its use.
3. A resource owner’s right to transfer ownership of her resource to someone else for free or for a price.
4. A resource owner’s right to the earnings her use or sale of the resource creates.

Property rights are indispensable for prosperity for three reasons. First, they make it possible for individuals to discover the information they need to use resources productively. Property rights permit market exchange and market exchanges permit market prices. As the great Austrian economist and Nobel Laureate F.A. Hayek pointed out, market prices are like signals that direct economic traffic. If, for example, a storm in the Prairies destroyed some of Saskatchewan’s wheat crop, then the price of wheat in Saskatchewan would rise, encouraging wheat farmers in other provinces to send more of their wheat to Saskatchewan’s needy market and prompting buyers in Saskatchewan to curtail their consumption. The changing price of wheat—a price made possible by property



rights—coordinates suppliers and demanders in light of changing market conditions.

Imagine how things would be different without property rights. Individuals cannot trade what they do not own. Thus, without property rights there would be no market exchange. And without market exchange there would be no market prices. And without market prices the information these prices provide about how resources should be used could not be discovered. If a storm destroyed some of Saskatchewan’s wheat crop, wheat from other provinces would not flow into Saskatchewan’s needy market and Saskatchewan’s consumers would not know to curtail their consumption. The result would be economic chaos. Without property rights, economic actors would be groping in the dark.



KEY CONCEPTS

The second reason why property rights are indispensable for

prosperity is that they create incentives for individuals to act on information about how to use resources productively. When their property rights are secure, individuals benefit directly—in the form of profit—from employing their resources productively. For example, the Alberta wheat farmers who, after observing the higher price of wheat in Saskatchewan following the storm, sent some of their wheat to Saskatchewan’s market would get to keep the money they made by acting on this information.

Similarly, individuals lose directly—in the form of losses—when they employ their resources unproductively.



Stock Vault

The Alberta wheat farmers who, after observing the higher price of wheat in Saskatchewan following the storm, made hats out of their wheat instead of sending it in Saskatchewan would lose money because they responded to this information inappropriately. In this way, property rights encourage resource owners to use their resources in ways that create value and avoid using them in ways that destroy value.

The final reason why property rights are indispensable for prosperity is that they make liberty possible. Besides material well-being, our overall prosperity also depends on our freedom. And as Milton Friedman, another Nobel Laureate in economics, famously pointed out, to enjoy the civil freedoms we cherish, we must have property rights. The Soviet Union's constitution officially guaranteed its citizens freedom of speech and freedom of assembly. But these guarantees were meaningless because the Soviet Union's socialist economy abolished citizens' property rights. Citizens could not own printing presses. Nor could they own assembly halls. How, then, could they exercise their supposed freedoms?

Property rights are equally indispensable for other liberties. How can there be freedom of religion where citizens cannot own places of worship? How can there be a right to privacy where citizens cannot own homes? And how can there be freedom of thought where citizens cannot own publishing companies? There can't be. If citizens do not have property rights, then even the most basic civil freedoms are impossible.

There are two threats to individuals' property rights: thieves and government. Ostensibly, the very reason for the latter is to protect us against the former. Laws, police, and courts are supposed to protect our rights of

ownership from those who would not respect them otherwise. In much of the world, however, politicians behave much like thieves—only they plunder much more. Such governments use taxes, inflation, and, in some cases, outright expropriation to steal from their citizens.

The means that thieves and predatory governments use to violate individuals' property rights may differ, but their effect is the same. If you expect to regularly lose your earnings to a mugger, your right to your income—and thus your ability and incentive to generate income—is greatly weakened. Similarly, if you expect your government to take a large portion of your income each year through taxes or some other form of expropriation, your right to your income—and thus your ability and incentive to generate income—is weakened as well.

A society plagued by predatory governments winds up in the same situation as one plagued by thieves, and for the same reason. In both societies the citizens' property rights are insecure, undermining individuals' ability and incentive to create wealth. It is, therefore, critical to prevent thieves and governments from undermining individuals' property rights.

While there are many ways to live, there is only one way to live free and prosperously: through a system of well-protected property rights. Property rights are the foundation of a free society. They make the price system possible, provide individuals with incentives to create wealth, and are the linchpin of our liberty. By protecting individuals' property rights, we can ensure the growth of civilization. By failing to do so, we ensure civilization's demise.

Suggestions for further reading

Friedman, Milton (1962). *Capitalism and Freedom*. University of Chicago Press.

Rosenberg, Nathan, and L.E. Bridzell, Jr. (1986). *How the West Grew Rich: The Economic Transformation of the Industrial World*. Basic Books.

von Mises, Ludwig (1996). *Liberalism: The Classical Tradition*. Foundation for Economic Education. ■

***Key Concepts** is a series of essays on the fundamentals of economics and markets. In addition to appearing in *Fraser Forum*, these essays will form the basis of a live Ask the Professor discussion, held at www.fraserinstitute.org each month. This essay concludes the Key Concepts series.

Please join us on April 29 at 11:00 am Pacific time for an online discussion of this essay with Professor Christopher Coyne.